

Challenge

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Articles

Back to the Rank and File?.....	8
A. H. RASKIN	
Should We Have a National Lottery?.....	13
LEONARD BAKER	
The Current State of Economics.....	18
KENNETH E. BOULDING	
Is the Social Security Fund Solvent?.....	25
EDWIN E. WITTE	
The Limitations of Regional Planning....	30
EDWIN P. REUBENS	
Religion and Prosperity.....	35
JAMES GUSTAFSON	
Minerals, Defense and Growth.....	44
SAMUEL G. LASKY	
Capital Goods Recession?.....	49
DEXTER M. KEEZER and MARGARET K. MATULIS	
Texas Without Oil.....	62
THOMAS MARTIN	
When Money Travels too Fast.....	72
STEPHEN W. ROUSSEAS	

Interview

Roger M. Blough.....	54
CHAIRMAN OF THE BOARD, UNITED STATES STEEL CORPORATION	

Departments

Letters to the Editor.....	2
A Personal Note.....	4
Challenge Notes.....	6
Challenge Personality-of-the-Month.....	23
Economics in Action.....	40
Everyday Economics.....	60
The Permanent Frontier.....	67
Reading Report.....	77
Challenge Quiz.....	79
Dept. of Better Mousetraps.....	80

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letters TO THE EDITOR

A spade is a spade

•Many times I have seen in the press or heard over the radio that we have a "capitalistic" system and with it a "free (but never mentioned, competitive) enterprise" system. Viewing economic activities in the United States, I am puzzled by a number of instances which seem not to measure up to our ministry of propaganda's "party line." The case of polio vaccine is an interesting example. Collections taken from the public were used to pay for research, but before the enterprising manufacturers would start manufacturing the vaccine, the public's money had to be used again to help the manufacturers produce it at a profit. Doesn't seem like "competitive enterprise" there.

I could cite many more examples: subsidies to "farmers," "tax write-offs" to manufacturers, etc. But why go on? What I want is descriptive analysis and an explanation of the U. S. economic system as it is—not according to some phony idea not practiced or believed in.

E. KLAVON

Washington, D. C.

Citing the classics

•The popularization of abstract ideas has a long tradition. Perhaps the greatest of the popularizers was

Voltaire who introduced to the Continent the ideas of Newton and Locke. I am not saying that CHALLENGE is comparable to Voltaire, but it has helped a lot of people understand some of our more basic economic problems. Sophisticates may sneer and call CHALLENGE a vulgarization, but is not their sneering the greater vulgarization?

HOWARD COMSTOCK
Plainfield, N. J.

•The view that economics is of world-wide concern receives scant consideration from your contributors. You prefer to confuse your readers with sweeping generalizations, a mishmash of pronouns and question-begging terms. Give your public some order and sense. After all, Adam Smith wrote a brilliant book, *Wealth of Nations*, clearly and simply.

D. MOLONY
New York, N. Y.

Regulate—not promote

•In *Challenge Notes* for April, 1958, I am afraid you have oversimplified the problem with respect to the ICC.

Please do not classify this agency in the same category as the CAB. I, too, believe that the regulatory shackles on railroads should be eased, but the fault lies not with the existence of the ICC but with Con-

gress' mandate which needs revision.

I would hate to see any executive department take over the regulation of surface transportation. We would then have a situation similar to that in air transportation where the CAB both regulates and promotes. When it promotes, it sometimes uses the railroads' own tax payments to promote their competitors.

What should be done is this: divorce all regulation from promotion; put all means of transport under the ICC; revise the Interstate Commerce Act so that all forms of transportation operate by the same set of rules.

ARTHUR B. McCOMB
Poughkeepsie, N. Y.

I did not mean to imply that these agencies should be abolished and incorporated into executive departments. I simply questioned the assumption that by creating an administrative agency we do away with the problem of political influence in economic regulation.

I also agree that agencies are supposed to regulate, not promote, their particular industry. But I do not believe that putting all forms of transportation under one agency is the best way of accomplishing this end.—M.K.

Cavalier condemnation

•I was shocked by your cavalier condemnation of Rene Wormser's *Foundations, Their Power and Influence*.

Regardless of what one thinks about the impact of foundation grants on American thought and education, everyone who does think seriously about it should read this carefully documented book by one of

the top legal minds in the foundation field.

Inasmuch as a great deal of Mr. Wormser's livelihood is derived from setting up and advising foundations, it would be irrational for him to criticize in any but a constructive manner.

Perhaps he will turn out to be the foundations' best friend.

RICHARD RIMANOCZY
Editorial Director
The American Economic Foundation

Tickling subjectivity

•Your personality sketches are written crisply and pungently. But these portraits in miniature too often ooze objectivity. A stronger seasoning of praise and irreverence is needed. This tickling sentence from your profile of Prof. Galbraith is what I would like to see more often: "He needs no Clemenceau to remind him that economics is too important to be left to economists."

EDMUND WEBLEY
Kew Gardens, N. Y.

Erratum

•It is incorrect that consumer spending has been in persistent decline since mid-1956 (question 4 on page 79 of the May issue). You confuse slowing down of the rate of increase with decline. Consumer spending in 1956 amounted to 267.2 billions and in 1957 to 280.4 billions. Even in terms of constant prices there was no absolute decline from 1956 to 1957.

H. P. NEISSER
Greenvale, N. Y.

Prof. Neisser is correct. The answer to the question should have been false. An error in proofreading made it otherwise.—Ed.

a personal note

from the editor

*something that needs doing—
and not because of the Russians*

THE WORST of the 1957-58 economic recession is behind us, we hope. The problems it provoked are well known. But one might also say that the recession was divinely designed to teach us a lesson we had better never forget. A prolonged period of business lethargy is a luxury which no economy can afford, particularly under present-day conditions when one moment of weakness could be the signal for sudden death. The enemy never sleeps.

I suppose such opening remarks in an editorial will suggest to many readers that once again we are going to chronicle the greater rate of economic expansion in the Soviet Union than in the United States, and so on and so forth. Well, such presentations certainly merit attention, and, indeed, some cogent comments in this vein are made on page 6 of this issue. But this observer has always been of the opinion that if something needs doing, it should be done, with or without a Russian threat. Understanding the whys and the wherefores of economic recessions—and the preventive measures to be adopted to avoid such wasteful periods—is knowledge we should want to gain for its own sake—not because the Russians might outproduce us someday. We have done too much soul-searching in response to the Russian challenge. There is a great virtue in the eternal search for truth and progress—without prods from the Devil's pitchfork.

In the economic realm, the alleged threat from the Russians is not Russian at all, for no amount of fighting with the Russians can ease the danger to our economic system. There are tens of millions in the world who do not know anything about free enterprise as practiced in this country. There are many millions more who equate free enterprise with 18th-century capitalism and hate it for the exploitation they believe they have suffered in the name of that classical term. And to the even more millions who do not know what to think, the so-called uncommitted ones, the fact that business recessions are termed a necessary discord in the grand harmony of economic development in

the United States does little to flatter our ideals or our practices.

I am not suggesting that there is something so radically wrong with our system that we should divest ourselves of it forthwith and plunge headlong into grandiosely planned procedures for the attainment of paradise on this earth. That would be both thankless and impoverishing. What I am suggesting is that the time is ripe to get excited about making some improvements in our system. There is a large element of self-preservation in this resolve. But I should prefer to call it the moment of truth served up by the recession just passed (we hope).

Periods of economic difficulty have been occurring and recurring for a long time. To the economic novice it must seem strange that it is possible for a country's economy to be booming along one year and then to settle into a trough the next. Why? The country is the same, the raw materials are there, the factories still stand, the transportation system is intact, and people are willing to work. What folly, then, is responsible for the maladjustments that periodically numb the otherwise seemingly healthy economic body? The explanations are many, and they are becoming ever more complex. And we still do not know all we need to know to prevent these periodic and costly illnesses.

No one likes the effects of cyclical downturns. The American people do not weather well such illnesses. In fact, there is a tendency to become somewhat hysterical, and even a mild touch of recession starts a frenzied outcry for all sorts of ill-conceived remedies. The government is unwilling to even admit that there is a recession until we are well into one. The usually resourceful labor unions shrink back from demands which only months before they had been hurling into the teeth of management. While businessmen, who in good times regularly extoll the virtues of free enterprise, are at a loss to explain why free enterprise should stumble into such an inept position.

In short, if business downturns hurt people, frighten people, embarrass people and make people feel apologetic, then it is time to do something about recessions. We need not tolerate recessions as a congenital condition in a system which provides individual reward for individual effort. If we become intolerant, we shall learn how to avoid serious slumps. Business, labor and the public have the most at stake in this issue, and all three should be willing to re-examine all of their time-honored institutions and procedures. This is a grand task for American society, and we must tend to it immediately. If we do not, the Russians may catch up with us after all. If the Russians do not, then someone or something else will.—H.B.



Challenge Notes

The Middle East crisis and the recession; executive stresses and strains; measuring up to our potential; creative creativity

THE MIDDLE EAST CRISIS had barely exploded on an America that had all too comfortably forgotten its constant proximity to war when the economic commentators—backed up by speculative bullishness in the stock and commodity markets—were predicting a new boom.

Right now, nobody can predict what the economic impact of the Iraqi revolt and the interventions in Lebanon and Jordan will be for the simple reason that nobody (including Nasser and the Kremlin) knows how serious the situation can become. But one thing is clear. The current crisis did *not* get us out of the recession. Nearly all the economic indicators (with the possible exception of inventories, which continued “sticky”) showed marked improvement *before* the crisis.

Of course it is true that while the economic nosedive had already leveled off, there were few signs of recovery. The Mideast crisis will inevitably raise the specter of shortages and will encourage busi-

nessmen to replenish inventories, and lead to speculative buying.

But does this mean that a boom is just around the corner? Perhaps, but not *because* of the Mideast crisis. Certain industries such as oil (which had been encountering difficulties in disposing of its expanded post-Suez capacity) will no doubt benefit—at least in the short run. But unless the situation seriously deteriorates, a sharp increase in government defense spending beyond current commitments seems unlikely. Nor is a resumption of business spending for new plant and equipment at 1955 and 1956 boom levels likely within the next few months.

If a boom does materialize, it will be because the consumer—prodded perhaps by fears of impending scarcities—will resume his boom spending. So far, he has shown little inclination to do this.

Executive ailments?

DO THE stresses and strains of being an executive impair health? So much has been written

about the physical and emotional tensions of the executive life that most of us have come to believe that the inevitable price of business success is ulcers and high blood pressure. The heroes of current business novels, for example, always reject the "big chance" on the theory that they would rather be happy and healthy than successful. Those of us who have never been offered the big chance console ourselves with the thought that at least we shall live longer.

A recent survey by two New York doctors of 1,171 male executives and 1,203 nonexecutive white-collar workers in the headquarters of one of our largest oil companies indicates that this alibi just will not do. All the "typical" executive diseases of business fiction—high blood pressure, arteriosclerosis, etc.—occurred more frequently among the nonexecutives. The stresses and strains of failure apparently outweigh the pressure of success.

Performance and potential

ECONOMISTS are becoming increasingly concerned over the apparent decline in our economic rate of growth during the last four years. Between 1953 and 1957 industrial production increased at an average rate of only 1.5 per cent a year, compared to about 10 per cent in the Soviet Union, seven per cent in Western

Europe and 10 per cent in India.

For the last two years, moreover, our index of industrial production has been either stationary or declining. It is now about 13 per cent below where it was two and a half years ago. There has been some slight improvement lately, but it will be some time before we can surpass past levels.

Of course, economists realize that statistical comparisons of rates of economic growth are often misleading. Like Alice in Wonderland, a highly industrialized economy has to run twice as hard just to stand still—and we have been doing better than that. As for Soviet statistics, economists are by no means agreed on how they should be interpreted.

But admitting all these necessary qualifications, there is still cause for genuine concern. Our performance has clearly not quite measured up to our tremendous potential. And in a world of competing political and economic ideologies, free enterprise can afford nothing less than top performance.

A creative idea

A RECENT conference on how to encourage creativity in advertising concluded that one way to accomplish this might be to keep creative people out of such conferences. Check.—M.K.

BACK TO THE RANK AND FILE ?



by A. H. Raskin

Although there is room for more democracy, basic policy decisions must continue to be the responsibility of union leadership

WITH ALL the drabness of a police lineup, the parade of extortionists, embezzlers and malpractitioners in the labor-management field continues to march before the McClellan committee. In length, as well as in the sordidness of its revelations, the committee's inquiry has become the *Tobacco Road* of Senate investigations.

Inevitably, the endless repetition of what is essentially the same record (by characters whose only difference is in the variety of jails in which they served their apprenticeship for union office) has robbed the proceedings of much of their initial shock value. With the Middle East, the recession and Sherman Adams to worry about, the public reaction to abuses involving relations between unions and employers is likely to be "ho-hum."

This is regrettable because

something more than the elimination of crooks is necessary if adequate correctives are to be applied for the evils turned up by the Senate rackets probers. At least as alarming as the presence of faithless men in high union posts was the committee's disclosure of the extent to which the structure of many unions made those in control independent of the workers they were supposed to represent.

The tyranny with which leaders of the Teamsters Union and other scandal-scarred groups were able to push around their rank and file paralleled the rule exercised over workers by corporate barons a half-century ago.

Workers were "organized" through the medium of private deals between union officials and employers—usually at a time when some less pliant union was clam-

oring for recognition. The first that the employees would hear of their unionization was a notice from the boss that they had to pay union dues or be fired. Sometimes the boss did not even bother to tell the workers. He simply checked off their dues and they never found out they were "in" the union.

Contracts were negotiated without consulting the workers on what they wanted. Payoffs to union insiders and fixers took precedence over wage increases or improved conditions.

Trusteeships enabled appointed officials to hold power year after year without the embarrassment of membership votes. Dissenters were hounded out of the union and out of their jobs. Efforts to obtain democratic relief were an invitation to the hospital—without the protection of an employer-financed welfare plan to cover the medical bills.

Union treasuries were open for plundering on a basis that made it possible for top unionists to vote themselves costly homes, yachts, cars and other luxuries with no risk of going to jail for larceny. Some hoodlums were so successful in equipping themselves with "paper local" charters that they were able to sell labor peace

under the banner of a half-dozen unions at the same time. No corporation intent on diversification of its product line ever matched these freebooters in resourcefulness.

Obviously the first need in such a situation is a higher standard of dedication among union leaders and the management representatives who deal with them. But even the most thoroughgoing moral regeneration will leave untouched some of the structural and constitutional conditions within unions that have tended to make their officials in too many cases masters, rather than servants, of their membership.

The fact is that the size of unions, the spread of industry-wide bargaining and the complexity of the responsibilities union leaders must discharge all operate to reduce the role of the individual worker in the determination of union policies. Of course, this is a problem equally characteristic of big corporations and government agencies. Power becomes increasingly centralized, not because the top men want to stifle democracy but because they are convinced that they can best serve the interests of the members through the heightened efficiency that often comes with one-man decisions.

In virtually all big unions, of course, there is an elaborate ma-

A. H. Raskin covers the labor scene for *The New York Times*.

chinery for tapping the ideas of the rank and file on what the union should ask for in its collective bargaining negotiations. Equally elaborate machinery exists for contract ratification. But all the crucial decisions are usually made by the union president.

In the coal industry, John L. Lewis has thrown a good many of these props onto the slag heap. When the policy of annual warfare between Lewis and the industry was junked (after the bitter strikes of 1949-50 had come close to destroying both sides), the democratic ritual that had prevailed up to then went out with the conflict. Today Lewis sits down with one man from the industry—first, it was Harry M. Moses; since his death, it is Edward J. Fox—and they work out an agreement so peacefully and so secretly that no one is aware that a new contract is in the works until the wage policy committee is summoned to put its stamp of approval on Lewis' handicraft.

Even in unions led by such zealous champions of union democracy as Walter P. Reuther of the United Automobile Workers, the multiplication of democratic forms cannot obscure the necessity for leaving most meaningful policy decisions in a compass almost as narrow as that established by Lewis.

At the auto workers' regular

convention last year, the delegates dutifully ratified the decision of the Reuther leadership to press for shorter work hours and higher weekly wages in the union's 1958 negotiations with the Big Three auto makers. Several months later a special convention was called to pass on specific bargaining objectives. By this time, with auto sales on the toboggan, Reuther felt it wise to soft-pedal the campaign for more leisure.

A shift in targets

Again the Reuther view prevailed. The delegates declared themselves for a profit-sharing program, even though it ran counter to the union's traditional contention that profit-sharing was an employer device for undercutting union wage scales. By the time negotiations actually got under way this spring, Reuther, confronted with a progressive deterioration in his bargaining position, felt obliged again to shift targets.

To insist that all major negotiations and all important policy judgments in labor be made by elected officers on the basis of referendum vote would result in a paralysis of action that would cripple the effectiveness of unions in all the areas in which they have done their most useful work. The leadership must feel secure enough to proceed decisively in

situations involving strikes, wage agreements, the cleanout of crooks and other emergencies affecting the welfare of union members.

In such situations, the rank and file must content itself with what amounts to *ex post facto* review. If the acts of the leaders are inconsistent with the membership's own idea of what is right, then individual members should have something more than an academic right to effect a change in the top echelon. Since organized opposition groups rarely exist in unions, and are even more rarely encouraged, this dislodgment of entrenched officials is no easy accomplishment.

The problem is how to guard against a self-perpetuating bureaucracy that will grow more and more remote from a captive and impotent membership. The AFL-CIO has sought to tackle this problem through its ethical practices code on democratic processes in unions. It lays down the principle that authoritarian control is the antithesis of free unionism and it establishes requirements for regular elections, protects the right of dissent and demands fair play in the exercise of internal discipline.

Spiritual armor

Unhappily, this is the loosest of all the ethical practices codes that make up the spiritual armor

of organized labor. Those that deal with racket infiltration, health and welfare funds, conflicts of interest, financial safeguards and the issuance of "paper local" charters are much more plentifully endowed with teeth than the code on union democracy. This is principally because the authors of the code felt that what was needed was not so much a restatement of age-old democratic principles as a greater willingness on the part of the rank and file to exercise the rights they already had but were too apathetic to use.

Even where leaders try actively to foster membership participation, it is hard to get more than two or three per cent of the members of a big local to come to a meeting outside of contract ratification or strike time. And with contracts running for three years, and in some cases five, the crisis assemblies have ceased to be a meaningful link between the workers and their organizations.

The extent to which lassitude (or defeatism) is ingrained in the thinking of many workers was reflected in the scanty turnouts at the few meetings of Teamsters Union locals that were called to elect, rather than hand pick, delegates to the Miami Beach convention at which Jimmy Hoffa was elected president. The biggest teamster local in New York, No. 807, an anti-Hoffa union with a

long tradition of resistance to rackets, has a rule under which 50 members out of its total enrollment of 10,000 constitute a quorum. Yet it found it necessary repeatedly to cancel monthly sessions for lack of a quorum.

But the fact that many unionists show the same indifference as millions of citizens to the exercise of their democratic rights is no justification for failing to guarantee that those who are interested have the means to vote, to criticize and to run for office without fear of reprisal. The most wholesome thing that happened to the giant United Steelworkers of America in a long time was last year's referendum election, in which Donald C. Rarick, an unknown mill worker, mustered nearly a quarter of a million votes for the presidency after a campaign in which all the resources of the union—staff, publications and money—had been used to extoll the merits of the incumbents.

The Kennedy-Ives labor reform bill, passed by the Senate, would require all unions to elect their officers by secret ballot. It would also open up an avenue for the ouster by a majority of the membership of offending officers. Un-

ion funds could no longer be used to promote favored candidates for union office. Members who felt elections were rigged could turn to the Secretary of Labor for help. Coupled with these mandates are provisions for public reports on the union's internal processes and financial operations. The aim is to let the member know how his union is run.

Two unions—the big United Auto Workers and the little Upholsterers International Union—have taken independent action to shield their members against miscarriages of union justice. They have set up impartial review boards, made up of educators, jurists and clergymen, to which members may appeal if they feel they have been dealt with unfairly by the union's own trial machinery.

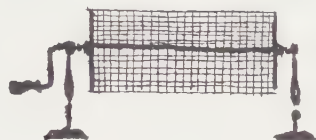
Moves of this kind, made by unions on their own initiative, hold out the greatest hope for long-term progress toward increased union democracy. Legislation will never provide an equal spur toward functioning democracy. All that legislation can do is establish the floor below which no union despot can drop in stripping his members of their elementary rights. ■

Up the Sleeve !

HERE IS a loophole for the new ruling prohibiting fake doctors on TV commercials: "Shorten the white coat's sleeves, since doctors wear full-length sleeves while lab technicians wear only half-length ones."

The federal government could decrease taxes, but the use of gambling revenue would be bad business for national policy

Should We Have



A National Lottery?

by Leonard Baker

WITH all the furor about a tax cut and its implication of increased deficit spending, it seems strange that there has been so little talk about alternative potential sources of government income. For years, advocates of a national lottery have championed such a project as the most effective means of relieving the harassed taxpayer, but they have received scant public attention and even less Congressional consideration.

Public indifference appears baffling in view of the fact that gambling is one of America's thriving industries. In 1957, the combined income of legal and illegal gambling was reputed to be about 30 billion dollars. Parimutuel betting reported a healthy 2.5 billions in earnings, and the prospects for 1958 look even better with several states having already

extended the racing seasons of some of their tracks. Bingo boasts an ever-growing popularity with more than six million players weekly, a billion-dollar income, and the promise that more state legislatures are considering its legalization. There is no way of gathering accurate figures on the amounts bet with bookmakers, but if there were, they would probably show an annual "take" of from 10 to 15 billion dollars.

Americans also offer substantial support to many foreign lotteries. Neither formidable odds against winning, nor the prospect of being duped by the thousands of counterfeit tickets that inevitably appear can deter them from risking four to six billion dollars annually. The legislative restrictions on the sale of foreign lottery tickets in this country have be-

come so lax that the Irish Sweepstakes can easily expect more than 70 per cent of its income to come from this side of the Atlantic.

To lottery advocates these figures represent cogent proof that gambling is instinctive to man. Citing Prohibition as a classic example in futility, they argue that effective legislation against so-called popular vices is impossible. If gambling is a multibillion-dollar inevitability, why not turn the vice into a virtue?

National lottery

The billions expended on gambling represent a vast potential in government income that has scarcely been tapped. The combined earnings of the federal and state governments in taxing these activities amounted to little more than a billion dollars during the last fiscal year. A considerable portion of that figure came from parimutuel betting, and from the one state in which gambling is legal, Nevada. Supporters claim that the federal government alone could reap an annual revenue of close to 10 billion dollars by establishing a national lottery. This sum, of course, would not mean absolution for the taxpayer—merely some needed relief. It could help finance such services as disabled veterans benefits, old-age assistance plans and federal hospitals. With today's international

situation auguring huge federal budgets for years to come, this painless, voluntary form of taxation is alleged to offer the best form of "painless" resignation.

Although lottery proposals have historically been greeted with something less than enthusiasm by Congress, they have never failed to attract at least a few ardent champions in the House and Senate. Today's most articulate spokesman is Representative Paul Fino (R.-N. Y.), who is again sponsoring a bill calling for the establishment of an independent Federal Lottery Commission. The Commission would be empowered to print and sell lottery tickets, award prizes and determine the frequency of the drawings. All sale proceeds would be deposited with the Secretary of the Treasury, to be later used in paying operational expenses, doling out winners' shares and supporting various federal service agencies.

But despite its noble purpose, Rep. Fino's measure has rarely got beyond the committee stage. He ascribes this indifference to his colleagues' misapprehensions about the reaction back home to something that appears to be "unrespectable." According to him, Congressional fears are pointless because recent Trendex polls have revealed that more than 60 per cent of the population favor a national lottery.

World opinion does not regard the operation of a state lottery as a slur to a nation's honor. More than 45 nations throughout Europe and Latin America employ it as a respectable means to raise funds. In Europe, many worthwhile projects are financed by it: France supports its disabled veterans; Sweden maintains a national theater and opera house; and Ireland finances more than a score of hospitals and other charitable institutions with its proceeds.

Today, in most Latin American countries, the lottery is a big business which employs thousands in the production and distribution of tickets. Last year, South American lotteries alone grossed nearly 1.5 billions in ticket sales, with about 700 millions going to the treasuries of the various states. To the smaller countries this meant a considerable easing of budgetary problems. So serious is the lottery to most Latin Americans that it is rumored they will allow their politicians and militarists to tamper with legislatures and ministries, but will brook no corruption in running the lottery.

Historical evidence

History can also offer abundant evidence on the popularity of lotteries. The rebuilding of Rome after Nero's fiddling fit of pyromania was financed by lotteries.

Queen Elizabeth I not only legalized lotteries into a sizable state financial operation, but coerced her subjects into subscribing to them. They played an important role in American history by furnishing funds for the colonization of Virginia and financing the Revolutionary War. However, early in the 19th century, lotteries fell into disrepute as their operations found their way into private hands. The sale of countless counterfeit tickets, the absurd odds against winning a prize and the doubtful nature of the charities—all these combined to give most states sufficient reason to outlaw lotteries by 1835.

But the historical argument involves a contradiction. Traditionally, lotteries have rarely been used as a stable, long-term source of government revenue. They have usually been invoked in desperate situations when few alternatives were available. The Second Continental Congress, for example, employed them often as an extra attraction to bond flotations. The bond served as a lottery ticket entitling its holder to not only profit from the interest rate, but perhaps win a large cash prize when the drawing was made.

To critics, the long-standing tradition of lotteries in some countries merely signifies the inability of underdeveloped nations to come up with more effective

sources of income. They argue that the very lack of a feasible and equitable system of taxation has helped to block economic development in this area. But in the United States, they say, this problem does not exist. A lottery is one of many fiscal alternatives available to us, and there is only one question we need consider: Will a national lottery act as a stimulating or a depressing influence to our highly industrialized economy?

The antilottery partisans argue that the establishment of a lottery would mean the creation of a deterrent to capital investment. It would become a formidable competitor of the stock market, diverting funds necessary for the expansion of private industry to less productive channels. In addition to a declining demand for their securities, corporations would be confronted with a shrinking market for many of their products. Dollars that the consumer might spend on a new car, refrigerator or washing machine would flow elsewhere. Faced with such a prospect, business firms would be forced to make substantial reductions in investments.

Even more harmful would be the lottery's effect on the small investor's savings. Instead of keeping his money in low-income-yielding securities, he would be tempted to risk it on the remote

raggs-to-riches possibility of a few lottery docketts. His stock and bondholdings give him a claim to tangible assets, no matter how small. A lottery ticket would merely give him a claim to contingency. After the drawings were made, his unselected ticket would become worthless. He would not only be deprived of a profit from his investment, but he would lose his entire capital.

Big-money prizes

To advocates, a lottery represents competition for illegal gambling, not for corporate finance. It is assumed that revenues will come from the billions already inundating the coffers of gambling syndicates. But would this be the result? In the past, nations have discovered that creating a state lottery did not bring an end to other forms of gambling, nor skim a great deal off their earnings. In England, for example, the government has floated bonds that have the added advantage of being lottery tickets as well, but this has had little financial effect on the flourishing football pools or on dogtrack betting. If we instituted a lottery in this country, chances are that it would barely pinch the bookmaker; rather, it would encourage people who never thought of gambling to try their luck.

According to lottery supporters, our present tax situation is intoler-

erable, impeding both investment and consumption. The revenues derived from a lottery would permit a tax cut and, therefore, stimulate the economy. But would this necessarily be the case? A great percentage of the federal government's income stems from a progressive income tax instituted to provide a more favorable distribution of wealth. The sizable savings of higher income groups are siphoned to lower-income levels where consumption as well as investment is enabled to increase. A lottery would help reverse this process because most of its funds would come from low-income groups who have traditionally been its greatest enthusiasts. Its big-money prizes will always attract the wage earner more readily than the salaried executive. The executive could afford to spend 10 dollars a week on lottery tickets without in any way affecting his consumption habits. Could the same be said for the industrial worker or the file clerk?

The economic questions also merge with moral ones. For years, the most lamented evil of gambling has been the risk-the-gro-

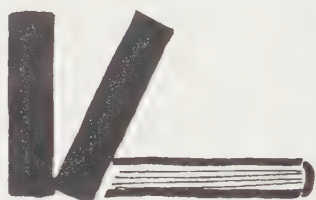
cery-money temptation to the lower income groups. Would it be proper to cast the government in the role of official tempter? Can we honestly say that a lottery is of a higher moral caliber than the numbers racket? Can we condone a government institution that encourages an attitude favoring get-rich-quick schemes to the more austere virtues of enterprise and thrift?

But with all the arguments, gambling remains a reality. Our problem is to find the means whereby its fiscal potentialities could best be exploited without endangering economic development. If a lottery necessitates a costly organization to operate it and promises little in the way of creating new wealth, is there some other alternative? Perhaps, instead of establishing an ineffectual competitor to illegal gambling such as a lottery, it would be more practical to legalize *all* forms of gambling so that a sizable portion of income could be realized through taxation. This would clear away the charges of hypocrisy and add a few billions to government coffers. ■

No Chemise, Please!

HIGH FASHION has its problems in the business world. In a survey held by the Office Executives Association of New York, 300 executives indicated their clothing preferences when interviewing female job seekers. More than 200 of them frowned on chemises or frilly party dresses. Most of these officials stressed the importance of wearing stockings, but disapproved of colored ones.

An economist pleads for a more realistic wedding of theory and practice



The Current State of Economics

by Kenneth E. Boulding

THE PROFESSION of the economist is a strange one. It has no professional examinations, no system of licensing, and so, one would think, no professional standards. It has a professional association of sorts in the American Economic Association, with about 11,000 members. I know of no case, however, in which anyone has been expelled from this august body for lack of professional competence; anyone who has six dollars and can find a sponsoring member can join it.

Nevertheless, a sociologist would be justified in describing economists as at least forming a strong occupational subculture. There is a group of "leading economists," most of whom know one another or at least know about one another. This group merges imperceptibly into a larger group

of not quite so distinguished but still well-established economists, and this merges likewise into the group of younger aspirants, neophytes and students. At the meetings of the various national or regional associations, the corridors ring with the cheerful noises of happy reunions. The leading economists, furthermore, are a cosmopolitan group; they would be known and welcomed in universities, research institutes, and even government departments all over the western world, and to a limited extent even in the Communist world.

A professional economist, of course, is somebody who is paid to do economics. There are a few amateurs, more or less gifted, and in the early days of the discipline these were more important, like Adam Smith (a moral philoso-

pher), Ricardo (a retired stock-broker) and J. S. Mill (a bureaucrat). From the middle of the 19th century on most economists, however, have been professionals.

But when we ask what it is that economists are paid to do there may be a slight sense of embarrassment. It is much harder to describe an intellectual than a physical product. Those who teach economics are engaged in the transmission of a knowledge structure from one mind to another, partly (like the teacher of a dead language) to perpetuate it and partly to extend it in the population. Those who do economic research are engaged in the extension and refinement of this same knowledge structure. It may be, of course, that the transmission, perpetuation and extension of this knowledge structure can be justified on purely aesthetic grounds because, as the English economist, A. C. Pigou, is reported to have said, it is "fun."

Important as this justification is, the economist cannot remain satisfied with it. Economics is something more (or less) than pure intellectual joy; it is also a mechanic art. Economists, in their own eyes at any rate, are people who give good advice about

the operation, responses and probable future of the economic system. And the economic system is in part a set of organizations like banks, labor unions, corporations, governments, etc., and partly a set of "economic quantities" such as prices, interest rates, employment and output levels, taxes and money flows.

This very division between the institutions and the quantities of the economic system suggests a division within the economics profession. There are some economists whose skills are mainly in the handling of economic quantities. These, by and large, are the economic theorists. There are other economists whose knowledge is mainly about the operation and structure of economic institutions.

These two sets of skills are rarely combined in the same person. It is possible to know a great deal about economic institutions without knowing much economic theory, and it is likewise possible to be an elegant theorist with only the sketchiest knowledge of economic institutions as they actually operate. One reason for this is that the study of economic institutions in their full roundness and complexity involves a theoretical background which goes far beyond the level of abstraction at which economic theory operates. Thus the study of an economic

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institution such as a labor union or a bank involves sociology, for the institution is a social institution; it involves psychology, for the institution is composed of persons; it involves political science, for the institution is an organization requiring delegation of power and responsible decision-making, and so we might go on.

Student of economics

This division between the theorists and the students of institutions is also reflected in the teaching programs of departments of economics. The student of economics is always exposed to some economic theory. On the other hand, he will also take courses in, say, labor problems, public control, transportation, and so on, in which there is very little economic theory, and in which, indeed, the underlying theoretical framework *should* be drawn (and usually is not) from jurisprudence, social psychology, and so on. If he specializes in money and banking, or in international trade, he may fall into the hands of a teacher whose prime interest is in theory and who teaches him little (and cares less) about how to operate a bank or how to draw a bill of exchange, or he may fall into the hands of a teacher who teaches him no theory and who stuffs him full of institutional detail.

This divorce—perhaps we should

say loose liaison—between practice and theory has bothered many people for a long time, and there are not many signs of improvement. The difficulty is in part built into the sociology of the profession. On the whole, the quickest and easiest way to become a “leading economist” is to be an ingenious theorist. As a little experiment, I have just taken five minutes to write down as many names of living “leading economists” as came into my head. Of the 54 names I wrote down, I have identified 37 as *primarily* theorists and 12 more as having a strong secondary interest in theory, leaving only five whose primary interest is in the study of institutions.

This sample is no doubt biased in favor of theory, as I am primarily a theorist myself. But I am sure that any fairly knowledgeable economist who performed the same experiment would come out with at least a clear majority of theorists. Nor is this surprising. Professional economists are mainly “intellectuals,” interested in writing, thinking, reading and talking rather than in buying and selling, making and organizing. And intellectuals have a comparative advantage in theory, since it is their business to be abstract.

One is led to a somewhat disturbing conclusion: that the

surest way to become a "leading economist" is not to study particular economic institutions with *all* the relevant theoretical resources, or even (as is often done) *without* the relevant theoretical resources, but rather to display skill in the handling of economic theory.

I should be the last one to argue that this is wholly undesirable. Economic theory is, after all, a result of a process of abstraction from the melee of economic life, and it would be surprising indeed if it were not the most relevant body of theoretical apparatus when it came to the study of economic institutions. The student of public finance, of monetary and banking institutions, even of the labor market, will certainly be much better equipped to envisage the wood in which the trees grow if he has some reasonably good maps of the woodland—which is what economic theory tries to provide. On the other hand, he also needs to know something about the "tree" (that is, the particular organization or institution) as an abstract system, and this perhaps is the greatest deficiency in the present system of formal education of economists.

Business schools

This problem comes to a head in the business school. Business schools have almost, without ex-

ception, grown out of, or split off from, departments of economics. As a result, the economist often regards the business school as sacrificing education to training, the public point of view to the private, the abstract, and intellectual birthright to a mess of slightly unsavory practical pottage. The business school looks at economics with the mingled guilt and resentment of the practical child for the idealistic mother. This tends to move the business school toward separation from the "liberal arts" parent, and if we are not careful, this may lead to the purely self-reproducing business school, staffing itself perpetually with its own Ph.D.'s.

At worst, this would be a disaster; at best, a tragically missed opportunity. For the business school should be one place where the theoretical foundations of many social sciences can come together to support a superstructure of institutional investigation. One would like to see a business school which would include theoretical economists, sociologists, psychologists, anthropologists, historians and geographers as an essential part of their research and teaching program.

I am not suggesting for a moment that economic theorists do not fulfill a useful function. I would hate to see the university departments of economics, or the

Council of Economic Advisers, or the Department of Commerce, or even business schools, staffed by people wholly innocent of margins, multipliers and elasticities. Nevertheless, I would also like to see more people studying economic institutions who are not "merely" economic theorists, and who have a good deal of theoretical background in the other social sciences.

I would also like to see more people studying economic institutions whose major theoretical background is in other fields. George Katona's economic-psychological studies of consumer and business behavior, and Chris Argyris' economic-sociological studies of a bank are excellent examples of the kind of thing I have in mind. There is a great opportunity for socio-psychological studies of such characteristically "economic" institutions as the securities or commodity markets, financial institutions and the processes of decision-making in large firms.

At present, there is a certain gap between the structure of professional rewards and the structure of fruitful opportunities for the advance of knowledge. On the whole, the rewards—at least the more secure rewards—in the intellectual professions are for becoming proficient in the professional subculture and not wander-

ing too far afield. There is a persistent subterranean campaign on the part of the professionals to discredit what one of them has called "cross sterilization of the social sciences," and there has been, unfortunately, enough nonsense both talked and practiced about interdisciplinary activity to give these criticisms some sting. But the fact that interdisciplinary activity is difficult, and is frequently a failure does not remove the need for the larger theoretical vision. The mere fact that an activity is dangerous is not enough to damn it.

One possible solution to this problem lies in the development of subprofessions, such as industrial relations, where the very needs of the subject matter force a degree of theoretical integration within the subprofession which cannot be attained within the profession at large. One cannot be too optimistic about this, however. Industrial relations is perhaps the most successful of these subprofessions from this point of view, but even here there is a certain tendency for one profession to drive out another.

We still need the occasional foolhardy soul who attempts the impossible task of integrating theory in the large, for it is only by attempting the impossible that we enlarge our notions of what is possible. ■

Leon H. Keyserling— Economic adviser-at-large

THE EXUBERANT growth of the American economy has dazzled most observers, economists included. Stagnationists had foreseen maturity or senility, with the economy unable to consume what it had produced. Even reasonable optimists did not anticipate the tremendous rise in well-being, the flood of automobiles, the mushrooming of housing developments and the proliferation of household and leisure amenities.

Leon H. Keyserling, 50, Chairman of the Council of Economic Advisers from 1950 to 1953 and now President of the Conference on Economic Progress, has refused to be dazzled. The Conference is a small organization of nonconformist businessmen, labor leaders like Walter P. Reuther and farm leaders like James G. Patton,



President of the National Farmers Union. Its purpose is to carry on research and promotion "related to full employment and full production in the United States."

Although they may differ on details, Conference members have permitted Keyserling to act as their spokesman in compiling a series of demands that outbid the economy in terms of exuberance. Basing their momentum on our postwar growth, the demands continue to sweep onward and upward as the economy itself falters. Their essence is entrancingly simple: planning predicated on an annual growth rate of five or six per cent—more than achieved during intervals of maximum progress.

Keyserling developed his theoretical momentum slowly, although his personal momentum was always in good order. Vice Chairman of the CEA since 1946, he became Chairman at the age of

With each issue CHALLENGE profiles a person whose thinking affects the pace of the United States economy.

42, when Edwin G. Nourse resigned, reportedly because President Truman disliked the rigors of his economic principles. A versatile planner, Keyserling took a Harvard Law degree, taught economics, served as assistant to the late Sen. Robert F. Wagner and rose to Deputy Administrator of the Housing Authority.

Keyserling did not pause to write the books that are the foundation for most economists' careers, although he participated in writing an economics textbook. His succinct theories are developed in articles and pamphlets.

The proponent of massive retaliation against the recession was more subdued when he was CEA Chairman. He cited the Council's opposition in 1949 to a "large expansion of public programs to counteract the business recession." The CEA, he said, was "foremost in urging that. . . the business community itself could and would move fairly promptly in an upward direction."

Keyserling would argue that the present recession is more serious. But he first proposed the six-per-cent annual growth rate in 1955, when the economy was moving upward on its own.

In a Conference pamphlet published last June, a growth rate of five per cent was advocated. The projections based on that are nevertheless magnitudinous: in-

creases of 84.5 billion dollars in gross national product by 1960 and 195.5 billions by 1964. The pamphlet predicates a rise in military expenditures of 12.8 billion dollars by 1964, although it claims no prophetic insight into the world power situation six years hence.

The Conference advocates tax reductions, easier money, a bigger federal budget and the encouragement of big industries to raise wages and lower prices. More modest economists, although rebelling at such drastic planning, could approve such Conference objectives as more expenditures for education and social services.

Such proposals evoke objections about deficit spending and inflation, but Keyserling insists that healthy growth could make inflation manageable. Critics point out that inflation control is a very intricate matter and demand reassuring details; the burden of proof still rests with Keyserling.

Keyserling has looked back to the 1947-1953 period, neatly coinciding with his CEA incumbency, as a base period. But he has produced no reason why that interval, situated just after the war inflation and sharply catalyzed by the Korean war, should serve as a model. A vigorous growth is a desirable objective, but Keyserling and his friends have won few adherents for their demands of five per cent or bust.—D.F.

Social security financing is based on sound actuarial principles



Devaney Photo

Is the Social Security Fund Solvent?

by Edwin E. Witte

UNTIL 1957 the critics of our social security system insisted that it was overfinanced. They advocated reduction in the contribution rates and the adoption of what they called "pay-as-you-go" financing. By this they meant that we should disregard accruing liabilities and collect only enough taxes (contributions) to meet the current payments.

But in the winter of 1957, the Social Security Administration issued a statement which showed

that the benefit payments for old age, survivors' and disability insurance system (OASDI) in the first half of the fiscal year exceeded tax collections by several hundred million dollars. The critics then shifted their ground and argued that the social security system was near bankruptcy!

Such criticism overlooked some important facts in the situation. Tax receipts are largest in the final months of the fiscal year, while the benefits are fairly stable

month after month. For the *entire* fiscal year of 1957, disbursements for old age and survivors' insurance exceeded the tax collections set aside for this purpose by 125 million dollars. This difference resulted from unexpectedly large demands when women were given the choice of claiming an actuarially reduced benefit at age 62 instead of a larger benefit at 65, and when many more farmers retired than had been anticipated. In the same year, in the portion of the tax funds set aside for disability payments, there was an excess of 650 million dollars over benefit payments, plus administration costs.

But the critics made an even more serious error by ignoring the reserve fund and the interest of that reserve. The reserve fund today exceeds 23 billion dollars, and the interest on the reserve, which must be added to the fund, exceeded 550 million dollars in 1957. Adding the interest to the tax collections we find that there was a net increase of 425 million dollars in the old age and survivors' insurance fund in 1957.

Tax increase

Least excusable was the failure of critics to take account of the express provisions in the present law for an increase of five per cent in tax rates for both employers and employees every five years,

until 1975 and thereafter, when a maximum rate will be applied. The next increase will become effective January 1, 1960, when the current rate for old age and survivors' insurance of two per cent on employers and on employees will become 2.5 per cent. In 1975 and thereafter the old age and survivors' insurance tax rate will become four per cent on employers and a like amount on employees. In addition, there is since 1957 an additional levy of .25 per cent on both employers and employees for disability payments. The proceeds of this levy are set aside in a separate fund but can be combined with the old age and survivors' insurance fund whenever Congress deems this advisable. Self-employed people now pay one-third less than the combined rate for employers and employees, but will likewise have their rates increased by the same amounts and at the same time as others.

The old age, survivors' and disability insurance system is not now and never has been financed on what private insurance people refer to as "full reserve" principles. Neither is it operated on what misleadingly is called the "pay-as-you-go" plan—which more appropriately should be referred to as the "owe-as-you-go" plan,

Edwin E. Witte, former president of the American Economic Association, is an authority on social security.

since it ignores all accruing liabilities that are not yet due. The financing of the present system might be said to rest between the full reserve and pay-as-you-go plans. But it is actuarially sound.

Reserve financing

Under the present law the rate of benefit payments is such that a full reserve plan of financing would have required a combined tax of nearly eight per cent (instead of the current 4.5 per cent) collected from the beginning, and the reserve would by now be many times greater than the 23 billion dollars we have. The present law does not provide for collection of eight per cent until 1975. That year and thereafter a combined 8.5 per cent will be collected. Nor will the reserve ever be as large as under full reserve financing. The interest on the reserve, which in 1957 changed a deficit into a surplus of 425 million dollars, will help to keep the system solvent in future years at much lower tax rates than would otherwise have to be collected.

The costs of financing any retirement system, public or private, inevitably increase for many years after the system has been established. For years the number of beneficiaries will grow cumulatively because most of the people who are placed on the rolls in any year survive for many years there-

after. For people of 65, the average remaining length of life is now approaching 13 years for men and 16 for women, but half will live longer. While they stay on the benefit rolls, new people are put on each year, with similar and gradually improving life expectancies. This cumulative growth will continue until the number of beneficiaries who die equals the number placed on the rolls. Apart from any other cause, this means an annual increase in the number of beneficiaries for 35 to 40 years.

The number of new people who are placed on the rolls also increases each year. This is a consequence of an aging population. The number of Americans who become 65 now totals more than 1,000 per day, 400,000 each year. This is an annual increase of nearly three per cent.

Finally, our national system makes no provisions for past service credits. As a result, the benefits are small in the early years, but increase over the years. The same effect has been produced by the gradual extension of coverage in the national system. Average benefits per individual have also been increased—somewhat more than the decreased purchasing power of the dollar.

As a result, total benefit costs have increased more than the number of beneficiaries. At the end of the first year in which retirement

benefits were paid out (December, 1940), the number of beneficiaries was 222,000 and the benefit payments totaled 35 million dollars. Seventeen years later, in December, 1957, there were 11.2 million beneficiaries, while benefit payments totaled 7.4 billion dollars. Both the number of beneficiaries and the total benefit payments have increased year after year; and the increase has never been less than 15 per cent higher than the preceding year. While the total disbursements were less than .1 per cent of the taxable payrolls in 1940, they are now almost exactly equal to the four per cent tax we are currently collecting.

Both the number of beneficiaries and the total disbursements will increase in the years that lie ahead, although at a slower rate. Because we have a growing population, a rising life expectancy and a lengthening period of old age, the numbers on the benefit rolls will not be stabilized until the year 2020, or even 2050. Actuaries estimate that benefit costs and administrative expenses will take 12 per cent of the taxable payrolls of that time. While the maximum tax rate provided for in the present law is 8.5 per cent, the difference between this rate and the 12 per cent which may be required in 60 years or so is expected to come from the reserve and the interest on the reserve.

These estimates are based on the law as it stands and on assumptions as to the growth of the population, the number of beneficiaries, the wage level, and other elements which are admittedly uncertain. That is why the law provides for an annual report on the financial soundness of the system by the trustees of the old age, survivors' and disability insurance funds. An actuarial estimate of the expected costs and revenues has been prepared for the Congressional committees whenever changes have been made in the law. A more comprehensive study of the entire problem of the financing of the system is now being made by the Social Security Advisory Council organized in the autumn of 1957 pursuant to Congressional legislation.

Self-financed system

This study may disclose that the system is either slightly overfinanced or slightly underfinanced. But this would not be a serious matter, since any possible excess or deficiency relates to a situation which may develop in the next century. Erroneous computations or forecasts can be corrected as they are discovered by slight changes in future tax rates.

What is important is that the central principle on which the system is financed be preserved. This is the principle of a contributory,

self-financed system. This means that whenever benefits are increased beyond any existing surplus, contribution rates must also be increased, since such benefits can only be financed by tax collections and reserve. Thus a powerful safeguard is provided both against runaway benefits and against diversion of old age, survivors', and disability funds for other purposes.

This has been the central thought behind the financing of the system from the beginning. Every dollar collected for old age, survivors' and disability insurance has been used for this purpose only. Hard pressed as the government has been to balance its budget, it has never been proposed that the old age, survivors' and disability insurance funds be diverted. Conversely, not one dollar expended for benefits and administration costs comes from general tax revenues.

Congress has also faithfully observed the principle that when benefits are increased the tax rates

must also be increased, unless it is clear that such an increase is unnecessary to keep the system fully financed. When it substantially increased the benefit costs in 1950, it increased the tax rates correspondingly. In 1952, it slightly increased the benefits, but on the actuaries' advice left the tax rates undisturbed, because the 1950 law produced somewhat more revenue than had been forecast. In 1953, the President, new to the problems of old age insurance, endorsed pay-as-you-go financing. But the Congress refused to go along with him; instead, it wrote into the law that the system should remain self-financed. In the Social Security Act Amendments of 1954, and again in 1956, benefits and also tax rates were increased.

Not only is our old age, survivors' and disability insurance system clearly solvent, but it promises to remain so throughout the foreseeable future. To this end, however, the principles upon which it rests must continue to be observed. ■

Answers to Challenge Quiz

(See page 79)

- | | |
|----------------------------------|-----------------------------------|
| (1) False (<i>see page 49</i>) | (7) False (<i>see page 25</i>) |
| (2) True (<i>see page 72</i>) | (8) False (<i>see page 67</i>) |
| (3) False (<i>see page 54</i>) | (9) False (<i>see page 35</i>) |
| (4) True (<i>see page 62</i>) | (10) False (<i>see page 8</i>) |
| (5) False (<i>see page 13</i>) | (11) False (<i>see page 44</i>) |
| (6) True (<i>see page 30</i>) | (12) True (<i>see page 18</i>) |



THE LIMITATIONS OF REGIONAL PLANNING

by Edwin P. Reubens

Regional blocs have great potential—and problems to match

THE REGIONAL approach to economic problems is already well advanced in Europe, and it has great intellectual and emotional appeal in Asia, Latin America, the Middle East and most recently in Africa. But the limitations of regionalism require a more careful examination of the conditions necessary for the success of this approach.

Economic regionalism seems to offer a middle way between a narrow nationalism, which has become unduly restrictive, and a nondiscriminating internationalism which still seems unattainable in the face of the real stresses in the world today. Some of the present regional groupings represent rebellion against colonial status or response to the East-West conflict, but several reflect, to our embarrassment, foreign economic difficulties in trad-

ing with the United States.

At least three different types of regional approach can be observed today. The "club" type is a local association which provides for debate, declarations, research and a certain amount of informal regional cooperation. Examples include the United Nations Economic Commissions for Asia and for Latin America, and even the Colombo Plan (whose Southeast Asian member countries continue to pursue their own national programs). A variety of joint action programs have been proposed at various times, but implementation has been rare since these organizations lack operating powers.

The second or "corporative" type of regional system is an operational organization designed for a specific and limited objective. Outstanding examples are the European Coal and Steel Commu-

nity, the European Payments Union, the dollar pool of the sterling bloc, and NATO. Here we find a record of very substantial accomplishments to date.

Such special-purpose institutions could, of course, be multiplied, with a new agency for each job—but they will obviously run up against limits of overlapping, conflict and confusion. Also, if they came to cover much more than their present small share of economic life, they would impose severe and perhaps intolerable competition upon the more inflated and protected member countries.

In the long run, both the club type and the corporative type of regionalism must be supplanted by more organized forms of integration, such as the "community." So far, the principal example is Benelux (the economic union of the three small countries of Belgium, the Netherlands and Luxembourg) which has been quite successful both in expanding trade and in reconciling the forbidding initial disparities between the Belgian and the Dutch economies. The much larger European Economic Community, which first came into existence in January of this year, provides for removal of trade barriers among the six member countries (West Germany, France,

Italy, Belgium, the Netherlands and Luxembourg) and closer integration of their economies. But all these steps are to be introduced gradually, and there are many "escape clauses."

Similar common markets have also been proposed for Asia and for Latin America, but thus far there has been no positive action. A very different kind of "community" is the Communist bloc of satellite countries grouped around the Soviet Union and dominated by it.

For the Western world, the regional economic union, which begins with a general customs union and may then go on to a full community, offers attractive possibilities. The virtues of a regional economic union are the standard virtues of "free trade": expansion of the market, exposure to vigorous competition and free movement of the factors of production. These features, in turn, tend towards economies of scale, specialization according to comparative advantage and employment of idle factors of production. If these tendencies work out successfully, they may also help to stabilize both the domestic business cycle and the external balance of payments. Finally, they may attract foreign capital, especially badly needed dollar funds, notably to set up branch plants inside the new common external tariff.

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These are substantial and desirable prospective benefits. But there are several kinds of obstacles which must be faced. Where economies are not complementary, the mere removal of trade barriers will not lead to more regional trade. If there does not exist a "natural basis" for trade, rooted in specialization and served by idle or expandable capacity, the trade effect will be short-circuited. Then there is the case where comparative advantage in physical productivity is not reflected in relative prices because it is offset by local policies and practices (such as wage scales, welfare provisions, easy credit, tax incidence and monopolization) which cannot readily be adjusted by simple revaluation of the exchange rates.

Danger of pressure

If regional trade does expand, there is the danger of pressure on the balance of payments of the less efficient, more inflated and more protected countries, leading to recurrent deficits, accumulating debts and successive devaluations. Conversely, the more stable countries will object to becoming perilously dependent upon the fluctuating demand and supply of the other members. There is also the danger of exclusive regionalism by way of the common external tariff, which not only removes a market from the rest of the world (mean-

ing chiefly the dollar bloc) but may also impose a comparative disadvantage upon member countries restricted to more costly regional products, and deprived of outside competitive pressures needed to improve their own productivity.

A more intractable obstacle is the immobility of the factors of production. This immobility is often a matter of poverty, ignorance and inertia. But frequently it is reinforced by historically vested interests and by official policies of special protection and general welfare measures such as subsidies, exchange controls, immigration quotas and social security regulations. Current discussions have perhaps made too much of the *internal* economies of mass production for a mass market as a sufficient inducement to invest—especially since a national market of 40 or 50 million persons enjoying a West European level of income already provides an adequate market for optimum-scale plants in many industries. Too little attention has been focused on the problem of *external* economies, which may discourage the private investor because his overhead would be enormous and the gains could not be readily appropriated by him but would accrue to the whole industry or to the whole society.

Where such adverse conditions

prevail, the "common market" approach faces the dilemma of either failing to operate or failing to serve general social aims. In Europe, where one may expect resistance by immobile firms and by high welfare labor, the market may be short-circuited by cartels or by official relief from competition. On the other hand, if such resistance is beaten down for the sake of free trade, the result in some countries may easily be unemployment, the undermining of welfare standards, and pressure on the balance of payments, without the offsetting gain of technological improvement and general development. Indeed, there is danger that under a mere customs union in Europe, the less developed areas—such as southern Italy and southern France—would fall relatively further and further behind the advanced areas.

Parallel economics

The dilemma is somewhat different in Asia and Latin America where primary producing countries, often specializing in the same commodities such as rice, rubber, coffee and sugar, predominate. The parallelism of these national economies means that they have little to offer each other and must look competitively for markets and suppliers in the industrial nations. For such countries, the "common market" approach is

likely *neither* to operate—since there will be few exchanges—nor to serve general social aims since there will be little development. To be sure, such a regional bloc might be more successful as a cartel for exacting from the industrial nations the improved terms of trade and substantial aid programs which should have been accorded freely. Ironically enough, such a successful holdup might well enable the poorer countries to offer some resistance to the current Soviet blandishments of barter deals and easy loans. Alternatively, the regional organization might degenerate into a satellite system: the Asian nations grouped around Japan, perhaps, and the Latin American nations dependent upon the United States.

On the other hand, regional approaches *can* be designed to serve developmental aims. There is the case of joint river-water supply, as in Southeast Asia and in Mesopotamia, or pest control and similar matters which physically cross national boundaries. There is also the greater importance, in areas less developed than Europe, of creating regional markets large enough to support the optimal-sized plants which are not being built at present because national markets are too small. But here, too, it would be a great mistake to assume that providing the market will magically evoke the plants.

The fundamental deficiency of the "common market" type of regionalism is the short-run outlook on comparative advantage and the mechanical assumptions concerning human behavior. What seems to be needed are new institutions which will provide both the finance and leadership required to promote the mobility of resources, transform the specialization and the technology of production, break through and reconstruct certain negative features of the social structure, and bring into focus the emerging social and economic values.

From this point of view, the most interesting and promising feature of the Treaty for the European Economic Community is not so much the removal of trade barriers, which has occupied the attention of most commentators, as the provisions for certain positive new agencies which will alter the very conditions of trade and of all economic life. One of these is a new European Investment Bank, designed to make funds available to backward areas of the Community and for projects which are beyond the capacity of individual enterprises or even individual governments. An additional fund will be set up for investment

in the overseas territories of the member countries. Another important new agency is a Social Fund, intended to deal with the problem of labor displaced in the new flow of trade, by providing retraining and resettlement, and thereby heading off labor opposition to change. Still another positive institution is an Executive Commission to coordinate economic and social policies and especially to check on restraints of trade. To promote the atomic energy industry in Europe, an associated treaty establishing Euratom has been adopted. For agriculture, one of the thorniest problems in Europe, a regional organization of some kind is lightly sketched out.

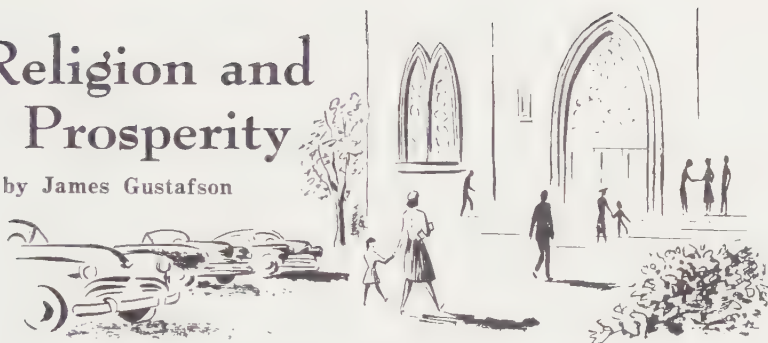
It is difficult to foretell how vigorous and effective these new institutions will be. The corresponding operations of the Coal and Steel Community have an encouraging record, although they are on a more limited scale. Much more study of that record is needed to guide the active programs of the new community. These, in turn, should guide other groups of nations who seek in regionalism a more modest, and perhaps more feasible, solution of their problems than outright international integration. ■

Cheaper by the Whistle

A SUNBATHING wife got a tax cut for her husband by provoking wolf whistles from a nearby factory. He claimed these outbursts depreciated his property's value. He received a three-dollar tax reduction.

Religion and Prosperity

by James Gustafson



Our economy of abundance tests a piety that has historically drawn strength from the element of sacrifice

SIXTY PER CENT of the American people now have some formal affiliation with a religious group. This is the highest figure in the history of the nation; indeed the ratio of those who are affiliated as against those who are not has increased from 1:20 at the time of the Revolution to 3:5 at the present time.

Church construction continues at the high level established after World War II. One hardly finds a city or town in which there are no new church buildings, or educational facilities added to old buildings. Enrollment in theological schools is higher than it has ever been. Gifts to the missionary programs of Protestant churches have reached all-time high levels. Religious book sales are ahead of all other nonfiction groups.

Expanding religious activity has kept pace with an expanding econ-

omy; the churches are enjoying many of the fruits of the prosperous decade. But if the expanding economy has aided the institutional growth of the churches, has it also affected the quality of religious life? What happens to our responsiveness to suffering, sin and death in a time of extensive social security, consumer mentality and scientific progress?

Does the prosperous American need God? If he does, what image of God does he find convenient? A God who sustains man's worldly achievements and gives to man the strength and power to adjust his culture? Or a God who is so identified with the institutional success of religion that he no longer judges the religious man?

Undoubtedly, various levels of quality exist within the institutional success of the churches. Men continue to seek a magnitude

of truth and goodness that transcends the vicissitudes of a prosperous culture. Some have achieved the salvation symbols of the culture at the cost of their inner peace; they seek emotional solace in the quiet of worship or the soothing counsel of the minister or priest. Others are moved to activity in religious groups in the same way that they are impelled to join the League of Women Voters or the neighborhood improvement association. They classify religion as a civic duty. It is patriotic to believe in God, and we are told that religion is a bulwark against communism.

Church bureaucrats

America is preoccupied with institutional success. The religious believer often loses his ability to engage in the moral and religious transformation of the human community. When church bureaucrats talk about "high potential" churches, they often mean churches that will grow rapidly in numbers and maintain a high level of financial giving rather than churches that are potentially centers of spiritual power and sources of moral regeneration in the world.

Churches compete with the overorganized community for the time and energy of people, without providing any insight into the emptiness of sheer activity itself.

Under the pressures of administrative responsibilities, clergymen find little time to do serious study themselves or to lead their congregations in serious study.

A new Protestant journal, *Christianity Today*, recently devoted its back cover to the results of a survey indicating that it was more widely received—many receive it without subscribing—and widely read than its competitors. The criterion is given by the culture which is accustomed to using numbers as a measure of truth and effectiveness, whether in production of automobiles or the circulation of religious magazines.

The economy of abundance and its culture provide an ersatz salvation. For much popular religion, the questions of saved from what, to what and by whom are often answered "from nothing as serious as sin, suffering and death, to something pleasant like peace of mind, by the minimal exercise of religious piety and the minister's smiling, smiling face." The economy of abundance provides the reality in which life is lived, questions are asked and answers are given. The symbols of traditional religion, which always suggest that the reality of life is ultimately begun and ended in God, are relatively meaningless.

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Anxiety at one time might have led a man to consider his relation to the Ultimate Being; now it is a matter of adjustment. Anxiety is assuaged, not by accepting an act of God in man's behalf, but by the purchase of more insurance, a session with a counsellor, religious or otherwise, and a bit of prodding to be optimistic rather than morbid. Suffering, which has always drawn man to consider ultimate questions, is suppressed as much as possible. It is difficult to identify oneself with the suffering of others when things are going so well for oneself.

The perils of war have no continuing images among us in ruined buildings or disfigured faces. Prosperity contributes to man's notions of self-sufficiency; but religion has always been rooted in an awareness of man's limitations. God tends to become irrelevant because things are going so well without an awareness of Him.

Demand for soft sell

Another impact of prosperity on popular religion is the demand for a soft sell. The disquieting note of critical judgment on man's behavior, never heard with relish, is unwelcome. To be sure, revivalists still preach Hell, and for those who respond to the image, something appears to happen. But the preacher of Hell adds quickly the consolation which is often as

verbal as the damnation, namely a simple solution in religious experience.

The reality of Hell is by no means denied within Roman Catholicism. Most comfortable churchgoers, however, do not expect judgment, whether in Hell or now. A pertinent moral critique, exposing the assumed self-sufficiency of modern man, is not popular in American pews. Widely revered theologians give eloquent testimony about the highly deceptive character of the contemporary salvation nostrums, but the message is not well received when preached by local ministers.

In lieu of the ancient tradition of expounding the wrath of God as well as His mercy, we have a pattern of religious life that reinforces man's participation in worldly rewards. This is not a new phenomenon; some economic royalists of the turn of the century (as well as the ancient Israelites) were strongly convinced that piety and prosperity were the warp and the woof of the religious life. If the rewards now guaranteed are not so crudely economic as they once were, they are no less inviting. Religion has a useful function in assuring one of his well-being, not after the throes of any purgation, but in his time and place in the present. The pains to be relieved are the pains of emotion; the relations to be rectified

are those between men and their environment, rather than between men and their God.

A generalized American faith has been growing. Strong religious convictions can become divisive in an economy and culture that one wants to work harmoniously. Kenneth Underwood, in a study of Holyoke, Mass., has documented the manner in which distinctions in religious belief are blurred even between Catholics and Protestants in upper- and middle-class groups.

The social mobility that is a first fruit of an expanding economy has aided the processes of religious mobility. Denominational preferences are not strong; if the members of the Methodist Church in one's new place of residence are more congenial than the members of the Presbyterian Church, the denomination of one's birth, one readily joins the Methodist Church. A frequent comment of lay persons, heard by ministers in almost every religious group, is "after all, we all worship the same God anyway."

In the name of efficiency and an assumption of a growing unity among churches, Protestant denominations agree to the allocation of each new residential area to a particular denomination in urban centers. This reduction in religious competition presumes a decline in loyalty to distinctive de-

nominal emphases. Social and economic distinctions are more important to laymen than the distinctions of a particular religious denomination.

Persistent themes

Finally, one must ask what happens to certain persistent themes in the moral life of the religious man. Asceticism has taken various forms in the life of religious communities, but it has almost always been present. Self-denial has been a recurring theme. Even those who reject salvation by works believe that moral discipline, involving some form of self-denials, is a fruit of religious faith. In Protestantism there has been a correlation between "this worldly asceticism," the denial of certain patterns of consumption while yet working hard in the world, and the motivation to save one's money and invest it in productive enterprises.

What happens to self-denial when one's civic and patriotic duty is to buy more things in order to keep money flowing in the economy? What happens to self-denial when the religious man is subjected to the bewitching guiles of advertisers and marketers? For most religious people in America, self-denial is probably no longer a principle of the religious life, although there may be a remnant of it to give an occasional bad con-

science. For others the self-denial is selective; they can deny themselves the pleasures of tobacco and wine, while indulging in the pleasures of large automobiles and expensive homes.

The morality of religion has been concerned with matters of social justice; there has been an identification with the downtrodden. Such identification is harder when the level of social justice is apparently high in a prosperous society and moral sensitivity is blunted. To be sure, there continue to be trumpets of no uncertain sound in American religion: church leaders were often outspoken in their defense of "unpopular" causes, and they support economic and political rights of minority groups. But in general the laity find little wrong with God's world. Prosperity embalms the social conscience of the religious community.

In spite of these derogatory effects, the sensitive religious man cannot totally denounce prosperity. He believes that religion deals with God's relation to man, and this fundamental relation is not

abolished by prosperity. Indeed, prosperity may intensify the problem of man's relation to God precisely because it does so much to hide it. A life of abundance of this world's goods assuages man's awareness of sin, suffering and death, but it does not obliterate their reality.

The sensitive religious man believes that prosperity, like death, is within the framework of God's providential activity. Good things could not be apart from God's work. The religious man lives in a double situation. He accepts prosperity, thankfully enjoys its fruits as ultimately coming from God, yet realizes that human self-sufficiency can lead to a subtle denial of God. He lives with its good things, and yet at once knows the temptations for the religious life that inhere in them. Religious believers must be numbered, churches built, wages raised, the level of buying power be kept high. These things have their own importance and must be affirmed. But they are not the true end of man. Insofar as they function as man's true end, God is denied. ■

Faith to the Bogs

"THE GROWING RUSH, and the disappearance of contemplation from modern life are the symptoms of a complete uprooting of culture. The waters of religion retreat and leave behind pools and bogs. The old beliefs are swept away by the grand rush for wealth. Never was the world worldlier; never was it emptier of love, goodness, charity and other Christian virtues."—*Nietzsche*

E*conomics in* **A***ction*

harvest of leaves

While awaiting the fall harvest of statistics, economists could use the summer interval to measure what happened to the economy since the recession began. Summer statistics were classified with vacation reading material, not to be judged in a colder light. Unemployment figures, for example, showed increases as graduates moved into the job market, but these did not connote the private and public hurt of winter joblessness. Some of the production slack could be hopefully attributed to vacation factors.

diminished third

There had been improvements by June, but they were not having the unequivocal effects that characterized the recoveries from the 1948-49 and 1953 slumps. Gross national product rose at an annual 11 per cent rate for several months after the earlier recession, and at an annual seven-per-cent rate after 1953. Those recoveries were strongly supported by consumer spending, particularly for homes and autos, and by business investment. The situation is different now, but not so different that it need daunt optimism.

long voyage home

Housing was in vigorous activity, with construction starts moving past the million mark in May after reaching a figure of 880,000 in March. The dollar value of building permits for the first half of 1958 was five per cent above that of the same period last year, a new record. More apartment buildings were going up than in any year since 1950. Demand was supported by continuing need; the vacancy rate was still low at 5.7 per cent of all rental-type units and 4.5 per cent of the total in metropolitan areas.

Some business psychologists have added new fantasy to the contradictions in the situation. Business

**constant
pleader**

was urging the consumer to buy the economy out of the recession. But the consumer was buying with an imperturbable, albeit selective, constancy. Consumer expenditures had fallen a mild one per cent since the 1957 summer peak. It was business itself that was not buying.

**capital
consumption**

After dropping four percent in the last quarter of 1957, capital spending fell an abrupt 10.6 per cent in the first quarter of 1958, from an annual rate of 36.2 to 32.4 billion dollars. The decline was continuing, although at the reduced rate of three per cent by mid-summer.

**few are
chosen**

Selectivity continued to characterize the economic situation. The recession took form last year in the durable goods industry, even while the year's aggregate personal income was slightly greater than that of 1956. The continuing effects of the recession this year only slightly pared personal income, but manufacturing sales were down nearly one-fifth from the 1957 peak.

infrastructure

The selective effect within industry was intensified, moreover, the closer one got to basic industry. Optimists had to be content with a steel production rise above the 60-per-cent-of-capacity point as an indication that things were getting better. It was, in any case, an improvement over early 1958, when steel tonnage was at its lowest level since 1946.

**fast
draw**

A step away from basic industry, steel fabricators had cut output to 84 per cent of the 1957 high. Having sharply reduced purchases, they were able to maintain their output rate only by drawing on stocks at hand. They had begun reducing stocks in the second quarter of 1957. A steadying of demand in durable goods, in view of the limited inventories, should have a favorable effect on basic industry, always end man in the economic game of crack-the-whip.

**soft
sales**

Selectivity took on consistent form among consumers, who had reduced their expenditures for durable goods from 13 to 11 per cent of disposable income. Eighty per cent of the unemployed were in the durable goods industry. On the other hand, consumers were spending three per cent more for soft goods and five per cent more for services. Consumers, moreover, were actually spending more cash, as they reduced credit buying of durables. Keynesian overtones were lacking in consumer savings; banks reported that individual savings were down to 6.3 per cent of disposable income, as against 6.6 per cent at the 1957 peak.

**unto
the day**

Optimism could speak out autumnal hopes in terms of delimited and arrested declines. Inflation remained an inhibiting factor in the policy of a government that preferred to wait and see, hoping that rising federal expenditures and the start of inventory build-ups would be sufficient. The economy was not in bad shape; it was distorted a little, as if it were getting over a case of the mumps.

* * *

**facing
realities**

WASHINGTON—Summit meeting or not, American policy in the Middle East must face up to three realities: (1) the rising tide of Arab nationalism cannot be denied, (2) no settlement in the Middle East is possible without a pacification of Arab-Israeli differences, (3) the West must voluntarily undertake a program to wipe out the vestigial remains of colonialism. The Arab-Israeli issue is the most difficult to deal with. Yet, if the other two realities are met, even this one can be handled.

**economics
and politics**

Nationalism in the Middle East wants an Arab awakening, a recrudescence. The immediate frustration in attaining this goal is economic backwardness. Even the appeal to unity is predicated on the belief that in unity there is the strength to nurture common progress. Arab nationalism defined in these terms is not feared by the U. S. as long as Russian political

strategy is not served thereby. Thus, the first task of American policy must be to separate economic development of the area from the storm center of the East-West struggle.

**exit
Russia**

In order to accomplish this, the U. S. must put its prestige behind an international agency, which will include the countries of the Middle East, designed to help the Arab nationalists get the one thing they want—development and industrialization. This will undercut both Russian strategy and the economic weapons they use in that strategy. Indeed, Russia must participate in such an international agency or stand branded as a friend to no one but herself.

**partners
in business**

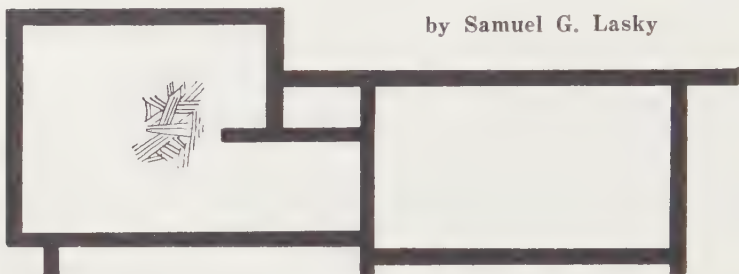
The colonial aspects of the Middle East problem are subtle, but comprehensible. The natural market for Middle Eastern oil is Europe, not Russia. The Arabs would prefer that the West not get out, because they are very conscious of the large capital needs and the technological knowledge necessary to keep the oil fields in efficient operation. This is the substance of the realities in the oil situation. But nationalism is affected by shadows as well as by substance. No formula for dividing the take, no matter how favorable to the Arabs, will be quite convincing unless Western investors start thinking of themselves as businessmen who have been invited to participate in the exploitation of natural resources that do not belong to them. The Arabs know enough about sound business not to destroy the profits of the West. What they want are the accoutrements of equality in the management of a business with partners they cannot do without.

**this—
or else**

Western proposals to settle the Arab-Israeli problem will not be acceptable to the Arabs unless confidence in the West is augmented by policies which suggest nothing short of a diplomatic revolution. If we fail now, we stand to lose everything in the Middle East, and we could lose it to the Russians. ■

Minerals, Defense and Growth

by Samuel G. Lasky



Our mineral supply can meet defense needs without stifling economic growth

IN A NEWS conference on April 24 of this year, President Eisenhower made the following remark: "Defense is expensive and is growing more expensive, and we have got to be ready to pay these defense costs for the next 40, 50 years, possibly."

He was referring to the fact that the defense budget of 42 billion dollars a year may be headed toward higher levels. It is now more than half of the total federal budget and is about one-tenth of the 434-billion-dollar gross national product for 1957.

That is one way of looking at the cost of defense. Another way is to look at it in terms of basic raw materials—to ask:

How much of the nation's metal and mineral consumption is going into defense?

Is that amount, whatever it is,

being diverted at the expense of normal utilization, or is there enough to go around?

These are straightforward questions. Unfortunately, the issues they raise are as amorphous as the questions are sharp. There are few facts to start from. The statistical information itself is scanty, and considered answers must depend, frankly, upon judgment.

Keeping these "hedges" in mind, I would answer that (1) in general, our national security is not being, and is not going to be, endangered by lack of mineral supply; and (2) the diversion of mineral resources to defense uses does not entail any great sacrifice, if any at all, of general economic development.

A round sum like 42 billion dollars, standing by itself, means lit-

tle. We know how much raw material is represented by 434 billion dollars of GNP. The statistical series are complete and up-to-date. But how many tons of steel or copper, say, is represented by 42 billion dollars for defense?

Here—at the very beginning—is where scarcity of fact first shows itself, and where judgment must first creep in. Records are kept only on steel, copper, aluminum, nickel and petroleum; to learn about others one must extrapolate from these five, and that can be done for only a few, and superficially at best.

According to such figures as can be obtained or deduced, and with the prominent exception of nickel, the percentages of mineral consumption devoted to defense range from a few tenths of a per cent for coal to about seven per cent for petroleum and aluminum. The steel figure is one to two per cent, and the copper figure three or four per cent. The nickel figure is about 30 per cent.

But these figures are minima, for they relate only to direct defense production. It is easy, of course, to calculate the tonnage of iron ore that had to be smelted in making the steel, the tonnage of limestone and fluorspar used as flux, of manganese ore for

scavenging, and of coal for coke. But how much additional coal is used to generate the power to run the factories that fabricate the steel into military products? How much additional steel goes into the railroad and trucking systems carrying supplies to these plants, and manufactured products away from them? Similar questions can be raised for every mineral item in use.

Considering the sketchiness of the statistical information, and the fact that it is available for only a few out of a total of about 150 mineral items used in the economy, trying to educe an average, as a guide for further analysis, can easily lead to pure speculation. It is tempting to conclude that the dollar ratio at any given time between the defense budget and the GNP is probably also a good approximation of the bulk diversion of mineral raw material. I myself would guess this ratio to be high by two or three points, because defense expenditures are such that large sums of money stand for small quantities of raw materials.

Whether seven or eight, or even 10 per cent is a great deal is another matter. Size is relative. In this instance the quantities we have been trying to define are large or small in proportion as they may place on the mineral resources of the world a demand

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that these resources will not be able to meet.

My use of the future tense is deliberate. When President Eisenhower said that we must be prepared "for the next 40, 50 years," he meant just that. The demands placed on the mines of the United States and of the world must be measured in that context. On that basis, then, one might grossly estimate that defense alone is going to require over this extended period a tonnage of iron ore, let us say, that will total perhaps three to five times present annual rate of use, a tonnage of bauxite-aluminum ore—totaling perhaps 10 or 15 times the present annual rate, a tonnage of copper perhaps six to 10 times.

Can the mines of the world—the mineral resources of the world—support that kind of production? Of course they can, and more.

Endless "rock" supply

The reason is that mineral deposits are no more than special kinds of rock, in which Nature has concentrated the desired mineral sufficiently to make it possible to mine the ore, process it, and transport and market the product at a net profit. For example, all rocks contain iron, and the iron content that marks the break between iron-bearing rock and iron ore is determined by cost-price relationships.

There is an endless amount of "rock" for man to work on and thus no limit to the opportunity to provide himself with what he wants—if he is willing to pay the cost.

Among the factors that control the kind or quantity of minerals mined at any particular time are the technology of the time, the minerals needed for that technology and man's willingness to spend the effort to find and produce them.

We must not make the mistake of assuming that we shall always be using the same materials or combinations of them. We must not make the mistake of multiplying present rates of consumption by 50, say, multiplying again by some growth factor, and then saying: "This is the amount we must find and mine over the next 50 years."

One does not have to look far to test that admonition. Fully 30 different metals and minerals came newly into use, or moved from casual into quantity commercial production, in the 25 years between World War I and World War II. About 25 additional new items have found a place in present technology or are being investigated and developed for the technology of the future. Others that have had extensive use in the past are finding new outlets because they have proper-

ties hitherto unused but now in demand—such as lead, now being relied on for atomic shielding.

Demand created

Changes in mineral-use patterns are characteristic of an industrial economy. Each scientific discovery invites new inventions that stir new desires among people or meet hitherto unsatisfied desires. Demand is created, and the miners of the world set out to find raw materials having the special properties needed by the inventions. Conversely, the discovery of how to produce a metal that has unique properties bestirs industry to make use of it. Well-known examples are aluminum, nickel, molybdenum, and now titanium and zirconium.

Minerals obey economic principles just as do other commodities. Mineral shortages develop when rate of discovery lags behind increasing demand; but shortages are transitory, lasting only until the higher prices induced by them generate the effort needed to find more.

When society decides that this effort is too great, it either "invents around" the particular material or develops a substitute. It is not the metal or mineral that is valued, but the service it performs within the technology of the time.

When materials in the current-

use pattern fail to provide the services needed, the metallurgist and engineer seek other materials. The rocks of the earth contain metals and minerals that have been little used but are present in quantities limited only by the size of the earth itself. Silica, the base for glass, is one; clay, as a source of aluminum, is another.

Other metallurgists are working on ceramics and on combinations of metals and ceramic materials—*cermets*. Meanwhile, the chemist is at work creating plastics and other synthetic materials, many of which substitute for natural materials. The Pennsylvania Department of Highways reports that it is preparing to build an experimental plastic road; synthetic gems have been with us for several years, and recently the General Electric Company began producing synthetic diamonds for industrial use.

But although it does not matter to what levels the needs of defense may raise the totals of mineral consumption, it does matter whether the diversion of materials is hampering our economic progress.

The diversion of raw materials from economic to military utilization is not inevitably competitive with the needs of peaceful economic growth. As with invention and manufacture, many developments nourished in a mili-

tary or defense context have peaceful application. A good illustration is the aluminum industry, which was trying to establish a market for itself when it was caught up in the turbulent period of history that began in 1914; it became tied to aviation, grew with aviation and is still largely controlled by it.

Such defense-created or defense-nourished developments are not, of course, net additions, for they probably would have come to pass in due course anyway. It is anyone's guess, however, as to how soon that may have been. Very likely the aluminum industry would have grown rapidly even without the nourishment of war or defense. On the other hand, world tungsten and columbium capabilities are much greater than they would have been were it not for defense demands. And

the uranium industry, tied to atomic energy, is probably more than a generation ahead of time.

In point of fact, the defense utilization of raw materials demonstrably has made many a contribution to human welfare and economic growth, whereas only by referring, like Whittier, to what "might have been" may one argue that it has held progress back.

Whatever alarms one may feel about the cost of defense, mineral supply and its effect on economic growth should not be included among them. Taking the benevolence of Nature into account, I foresee no mineral problems that will not yield to the day-to-day calculus of need and desire. Man's ingenuity in meeting a need is as great as his ingenuity in creating it, and together they constitute a dynamic goad to progress. ■

Moon Tracking

A GRADUATE STUDENT in physics at the University of California claims that a chain of small do-it-yourself satellite-tracking stations can be set up throughout the U. S. at low cost. He built a station for less than 300 dollars in the early days of Sputnik I, when he made some of the most accurate photographic sightings in the country. With startling ingenuity and judicious secondhand buying, he built a homemade, wooden box camera surmounted by a war surplus aerial reconnaissance lens (\$40), a plate holder in back (\$25), a cardboard viewer attached with Scotch tape in front, and a three-quarter inch pipe on either side of the box. The unit was attached to two stout posts behind his home. His major expenses were a second-hand shortwave receiver (\$70) to pick up the continuous time signals from the National Bureau of Standards time station, and a tape recorder (\$150) to record the exact time the satellite's picture is taken. According to the young inventor, these stations would be more effective in catching a satellite's final plunge into the atmosphere.

Business investment acts as a brake against a downward swing that has been caused by other economic factors

CAPITAL GOODS RECESSION?



by Dexter M. Keezer and Margaret K. Matulis

IT MAY BE a trifle premature to start classifying the current business recession before it is clearly over, but this possibility has not daunted many economists. They already have it tagged as a classical capital goods recession.

But is it? Or better, and a little safer, does it promise to be? If so, some vocal observers of the unfolding economic scene must be preparing themselves to eat a very plentiful helping of crow. For they have spoken, and more irrevocably, written about the emergence of new economic forces which are supposed to reduce the historic roller coaster character of business investment in capital goods and to give it a quite "unclassical" character.

Among these new forces, one which has been particularly stressed is the widespread adop-

tion of longer-range plans for investment in new capital plant and equipment.

Where a decade ago scarcely a handful of American corporations had plans for investment in new facilities extending beyond the current year, today almost all of the larger corporations have at least drafted the outlines for longer-range plans.

Another new development which, by its very massiveness, has been envisaged as having important potentialities for leveling out the violent ups and downs of new capital investment, is industrial research and development. Here the general idea has been that the sheer magnitude of industrial research and development would lead to a flattening out of the traditional ups and downs of business investment by stimulating a

continuing flood of new investment. Certainly, the massiveness of industrial research and development is there—more than eight billion dollars were devoted to this purpose in 1958. But what of the presumed stabilizing effects? Are any in sight?

Since we are part of the temporarily beleaguered group which has seen new forces at work tending to increase the stability of capital investment, we have a special interest in seeing whether this is, or will become, a classical capital goods recession.

To eliminate any possible suspense we shall state our conclusion now. This recession is not likely to go into the record books as a classical capital goods recession. The forces which have led to the current decline in business investment in new producing facilities include some that are decidedly unclassical in character. And so are the forces which are holding—and promise to keep on holding—this decline within tolerable limits.

Capital investment

Of course, if all that is meant by a classical capital goods recession is that business investment in capital equipment has declined from an earlier level, then present trends in this type of investment fill the bill. But then, so do the declines of 1948-49 and 1953-54, and it occurred to almost no one to

label *them* classical capital goods recessions.

However, the concept of a capital goods recession implies more than simply a decline of new capital investment. The concept seems to be that a classical capital goods recession acts largely as an independent economic variable. Overly optimistic businessmen overestimate their capital goods requirements, proceed on their own momentum to buy and install more than they need, then cut their investment programs back severely to compensate for their miscalculations and, in the process, push the economy up and then drag it down with them.

So regarded, the part played by declining business investment in new capital equipment during the current recession lacks virtually all of the key characteristics of a classical capital goods recession.

In the first place, the cutback in spending for new producing facilities is only one of the key causes of the present recession. It must share this more than dubious distinction with a number of other developments, including the sudden and severe cutback in government defense spending and the scarcely less precipitous disenchantment of potential consumers

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with the 1958 model automobiles.

Second, in a completely unclassical manner, the federal government was a prime mover in building up in many key industries much of that abundance of producing facilities which has prompted a letup in new investment. The federal government did this to build up a defense reserve of producing capacity, and, as an incentive, granted billions of dollars of accelerated depreciation.

Uncomfortable disparity

Third, business firms are *not* cutting their investment programs to fit the cloth provided by their short-run profit prospects. At the present time, the manufacturing industries of the United States are, as a whole, using not much more than 70 per cent of their total producing capacity where, on the average, they would like to be using about 90 per cent. But this uncomfortable disparity has not resulted in a panicky slashing of investment programs in new facilities.

The larger companies, moreover, have shown that, as was predicted, they are financially able to stick to their programs somewhat more firmly than the smaller companies. As these companies have found themselves with more producing capacity than they could handle comfortably, they have shifted their emphasis to upgrading and

modernization of their facilities rather than adding more—a shift which has helped to sustain the level of investment as a whole. While 52 per cent of the investment in new facilities reported in a McGraw-Hill survey was for expansion of productive facilities in 1957, the percentage had dropped to 44 per cent in 1958.

Of course, if it is assumed that, in order to escape the classical definition, business investment must not only become relatively stable itself but must also act as a positive force to *counteract* instabilities, then the escape has obviously not been completely made. Longer-range plans have been stretched out and in some cases (especially where government defense production plans have been changed) junked. On the other hand, it is clear that new stabilizing elements have been added to the process of business investment in new producing facilities. In 1932 this type of investment fell 72 per cent from 1929. This year the decline will be about 12 or 13 per cent.

But these longer-range investment plans cannot be expected to stand up indefinitely under the pulverizing sort of profit squeeze encountered in the first half of this year, during which time profits have been approximately 25 per cent off from the comparable period of a year ago.

But there is a good chance that

the profit squeeze will be loosened. If this prospect materializes, then a classical capital goods recession—marked by further large cut-backs in investment programs—will not take place.

If, however, a continuing profit squeeze forces a further decline in business investment in new producing facilities, a development almost as unclassical as it is misunderstood or ignored will be in substantial part responsible. This is the federal government's stimulation of the building of a surplus manufacturing capacity above regular civilian requirements as a defense reserve. In order to provide this reserve, the federal government, through its Office of Defense Mobilization, granted more than 23 billion dollars in accelerated depreciation between 1950 and 1957.

Push-button war?

But the orbiting of the sputniks and related developments in the field of rocketry have knocked into a cocked hat not only the prevailing program of national defense for the U.S.A., but along with it the whole concept of a special defense reserve of manufacturing capacity. What good is an extra steel mill in a push-button war which may be all over in a few minutes of comprehensive and probably mutual devastation? Since the answer is almost none,

our defense program was revamped and given a new dimension in space. At the same time, our manufacturing industry was left with a reserve of capacity for which the new defense plans had little or no use.

Thus, when you explore the causes of the current decline in business investment in new producing facilities, you will find a profit squeeze of quite unclassical mien collaborating with an abundance of capacity to which something as unclassical as the sputniks have made a key contribution. And yet you find a powerful barrier to a classical response to this situation in programs of business investment which are geared to longer-range objectives rather than to immediate considerations of profit and producing capacity.

Happily, the best statistics available (and they are very good) support this general line of argument. This year the Department of Commerce, the Securities and Exchange Commission and McGraw-Hill Surveys indicate that investment in new producing facilities will be down 12 or 13 per cent from its all-time peak in 1957. Where, as a percentage of GNP, this type of investment was on the high side of its postwar range in 1957, approximately nine per cent, the expenditures this year will be approximately eight per cent—about par for the postwar course.

Preliminary investment plans for the year immediately ahead, compiled by McGraw-Hill, indicate that business investment in new producing facilities will be down another eight per cent next year. After that, in the very unlovely phrase now in vogue to characterize such developments, it promises to "bottom out."

Much in common

It can be plausibly argued that for basic economic calculations, expenditures for research and development should be lumped with those for new plant and equipment, for they have much in common. If this year's private expenditure of more than three billion dollars for research and development is lumped with the expenditure of about 34 billion dollars (the McGraw-Hill figure) for new producing facilities, the decline in 1958 is reduced. And the continuing increase of expenditures for research and development planned for the years immediately ahead promises to mitigate any further decline.

Actually, the current recession will be no real test of the effect of expenditures for research and development in stabilizing business investment. This is because the massive expansion of research and development expenditures is of such recent origin that its full effects will not be felt for several

years. "It is seven years between test tube and tank car," is a rough rule of thumb in the chemical industry. If this were roughly true of other industries, the full impact of the tremendous expenditures for research and development which started in 1953 would not be fully felt for a few more years. These expenditures jumped from 3.7 billion dollars in 1953 to 7.3 billion dollars in 1957, and preliminary plans indicate that industry will be spending about 10 billion dollars in 1961.

However, if the concept of business investment is restricted simply to new producing facilities, the present and projected pattern does not, in terms of the magnitude of the swing, suggest the kind of collapse implied by the concept of a classical capital goods recession. And when the reasons for the decline are analyzed, it seems to make an even poorer fit.

It is too much to hope that we shall get business investment on a perfectly even keel this side of paradise. And it is also too early to be confidently concluding that the "bottoming out" of the present decline is unmistakably on the horizon. But there are forces operating which make it a rather slothful exercise in intellectual avoidance to call what is now going on a classical capital goods recession and let the matter go at that. ■

Roger M. Blough

Chairman of the Board,
United States Steel Corporation

Business Can Fight Recessions



Q *Mr. Blough, as Chairman of the Board of a key company in one of the nation's key industries, your assessment of the current recession and the role that business can play in combatting it is a matter of great interest to Americans. Do you believe that business has a "social responsibility" in this area.*

A Let me put it this way. One of the ways a business can fulfill its social responsibilities is to remain competitive and low cost. Further, it is my conviction that business can, in a variety of ways, help to moderate some of the fluctuations which a private enterprise economy is subject to.

Q *Does this mean that business can, by itself, prevent recessions?*

A No. A recession is a natural consequence of a period of boom and inflation. But certainly, there is nothing intrinsically unavoidable about booms and recessions, and there are many things that we can and should do to reduce their intensity. Nor do I wish to suggest that recessions are desirable just because they are "natural" and not altogether unexpected. But in order to deal with recessions, we simply have to accept the fact that as long as we have booms, we shall have periods of relatively declining activity. Some ups and downs are a characteristic of free enterprise economy. By recognizing this fact, we shall be in a much better position to try to moderate these business ups and downs.

Q *Mr. Blough, how do you account for the growing tendency to turn to government whenever we are confronted with a recession?*

A I guess it is just a natural, human tendency in the face of obstacles to turn to someone else for aid, in this case to a supposedly all-sufficient government. Some individuals have demanded various types of deficit spending—as they always do when there is any sign of a general downturn in business activity. And a number of people, among whom are many sincere members of Congress, have been quick to propose spending for make-work programs of public works. But the best evidence that I have been able to find indicates that there has thus far been little public enthusiasm for these inflationary devices.

Q *How can intelligent business policies help moderate cyclical trends?*

A I cannot emphasize too much the value of proper business planning to moderate the troughs which follow boom periods. I am referring to the kind of detailed and imaginative thinking concerning future markets upon which the survival of firms like ours, operating in a highly competitive industry, depends.

Q *One of the crucial problems, then, is to determine the extent of plant capacity that will be needed to service future markets.*

A That is right. Deciding on facility installations is, I can tell you from our own experience, an extremely complex problem because of the amount of information that must be gathered and the great number of imponderables involved. Yet, I don't know of any time when it would be more advantageous for a firm to build needed plant facilities than during periods like the present—advantageous both to the firms themselves and to the national economy. U. S. Steel, for example, is now engaging in a billion-dollar program of capital improvements—the largest such program in its history, and it is doing this despite the sharp decline in its profits thus far this year. So far as the national economy is concerned, such a program has a stimulating effect by providing vitally needed business for our suppliers and for *their* suppliers, in turn. Directly and indirectly, vitally needed jobs are provided for many thousands of workers.

Q *What specific advantages to the investing firm can you cite?*

A We know from our own experience at U. S. Steel that a manufacturer who builds in a period like the present can avoid a great deal

of overtime costs, to take but one example. He can also avoid a great deal of delay in getting a useful project into operation after it has once been started. In the steel industry, many buildings and facilities which would take three years to construct in a boom period, when everybody is building, can now be completed in about two years. And this saving in time can mean a substantial saving in money. Of course, I realize there are many other factors involved. But if your plans are right, and if you have a little bit of business courage, then I think your actions in this field can have a very definite countercyclical effect.

A two-million-ton monthly reduction in over-all steel capacity

Q How can inventory policies help moderate the severity of recessions?

A This is an extremely difficult problem—especially in the steel industry. When business falls off, our business is likely to fall off twice as much as in other sectors of the economy. Up to May or June, of 1957, for example, our customers had been accumulating steel inventories at the rate of about one million ingot tons per month. Since then, our customers have been liquidating their inventories at the same rate, so that you have a two-million-ton monthly reduction in over-all steel activity. Since that two-million-ton decline per month represents as much as 15, 20 or more points in our operating rate, this means that our operating rate could be reduced from, say, 85 to 65 per cent of capacity merely as a result of inventory accumulation-decumulation swings—that is, with our customers still using the same amount of steel.

Q Are you suggesting that your customers should try to stabilize their inventory buying?

A Please do not misunderstand me. I am not complaining about the inventory policies of our customers. I realize that they also have problems. Take the railroad industry. The railroad industry might build 100,000 cars in 1957 and end up by building only 50 per cent, or even a quarter of that number in 1958. Now, this is not because they want to vary their buying by that much, but because they are unable to provide the wherewithal for new cars. In general, however, I do believe that business has not sufficiently emphasized the need for careful inventory planning. Much more can be done in this respect.

Q The investments of business in research and product development

are playing an increasingly important role in the nation's economy. Do you feel that this kind of activity can exert a stabilizing effect during periods of recession?

A Very definitely. It seems to me that the more research you have, the more likely it is that you will have suitable products to bring out in times when business is slow. Of course, there are limits on the extent to which the products of research can be used for countercyclical purposes. Clearly, the thing to do is to bring out your product when you can. On the other hand, the big problem in periods like the present is stagnation—mental as well as economic—and new products tend to act as a stimulant. The advent of a new, less costly, more serviceable and more attractive product encourages competitive efforts by producers—and creates confidence and a new eagerness to buy.

Q *The important thing is for business to keep moving and alert?*

A Precisely. The most important contribution business can make is not to go into a deep freeze. This is the time when business must try to do everything in its power to strengthen the confidence of the consumer. By this I do not mean that it should make him overconfident; just that it should seek to convince him that this is no time to delay rational purchases.

Q *Mr. Blough, one of the reasons why the countercyclical effect of business policies is frequently nullified, according to many economists, is that no two business managements react in quite the same way to a given business situation. Do you agree?*

A I think it is a rather fortunate thing that businesses do not all react to these problems in the same way. If U. S. Steel, for example, spends more for capital improvements this year, and its competitors spend less, this difference in business thinking need not be at all a bad thing. After all, our competitors may be right and we may be wrong. That is a risk we simply have to take. The undesirable thing, it seems to me, is precisely that all businesses should react in exactly the same fashion to an identical situation. When that happens, you are faced with a really serious business cycle situation. In any case, I do not see how it would be possible to get all business to act in the same way without changing the essential features of our private enterprise system.

Q How about prices? As you know, some economists believe that many markets are becoming less sensitive to price changes and that, therefore, price policies by themselves are no longer effective as countercyclical stimulants.

A As far as the steel industry is concerned, this has always been true. We have studied this question very carefully, and we know that the volume of steel we can sell is not very closely related to its price—at least, not in the short run. Take the case of automobiles. Other factors are much more important, in their effect on the demand for automobiles, than any change in the over-all auto price which a reduction in steel prices could make possible. The total cost of steel in a typical 2,500-to 3,000-dollar automobile is less than 10 per cent. It seems self-evident that even if steel prices were to be reduced by 10 per cent—and that, of course, would be disastrous for the entire industry—this would have no appreciable effect on the demand for automobiles in 1958 since the savings we are talking about would be only 25 or 30 dollars.

Certain kinds of government expenditures are extremely desirable

Q Even where price reductions might be effective as a stimulant to demand, would you be in a position to inaugurate such reductions?

A This is a very serious question, especially in an industry like steel where, according to our calculations, between 75 per cent and 80 per cent of all costs are direct or indirect labor costs. Since these costs are very insensitive to changes in demand, our ability to reduce prices is very severely limited.

Q Mr. Blough, thus far we have been discussing various ways in which business can help to counteract recessionary tendencies. What, in your opinion, is the role of government spending during such periods?

A I believe that certain kinds of government expenditures during periods of recession are extremely desirable. Government can perform a real service by speeding up needed and available projects during periods of recession. And, of course, there are many other things government can do in its credit, money and fiscal policies to create a climate which will encourage rational investment by business and rational buying by customers.

Q But you believe that, on the whole, spending by business will be more effective than government spending?

A In general, I believe that is correct. Partly because of the volume of industrial spending when compared to government spending, and partly because of the greater facility with which private industrial investment plans can be contracted or expanded, the private business decisions of major companies are much more potent as countercyclical factors than government programs. Moreover, most public works projects, such as the construction of highways, provide employment *during construction*; but when the job is completed, very few permanent employees are needed to operate the facility. When industry builds a new plant, however, it provides jobs not only for those who are engaged in the original construction of the facility, but also for the permanent employees who will work in the plant thereafter and who will merchandise its products.

Q Then why do we continue to rely on government?

A To the extent that we do rely on government, it is probably due to the fact that the sharp decline in profits in periods of recession makes it impossible, in many cases, for business to finance a countercyclical program of the proportions that it would like to undertake, and could profitably undertake, if it had the money to do so. And since the government has available deficit financing and can create money through the use of the printing press if necessary, government naturally seems to some to be an oasis, the only oasis left in the economic desert when business profits are no longer able to meet the demands upon them. But, of course, that is far from the whole story.

Q How can intelligent countercyclical policies by business help to counteract this tendency to rush to government in times of trouble?

A Since the ability of business to undertake "intelligent countercyclical policies" depends directly on its profit position, I can only suggest that business must recognize its moral, economic and social responsibility to earn at all times—and to the best of its ability—a profit large enough to do the job that a profit must do for each particular enterprise.

Q Thank you, Mr. Blough. ■

Everyday Economics

THE PAY you receive while away from the job because of an injury is tax exempt, if it does not exceed 100 dollars a week. The Internal Revenue Service has also ruled that, although you are working, you can still claim exemption on the money you receive for those intervals of absence necessitated by medical treatment for the injury.

Sources aplenty



INTERESTED investors will find no shortage of information available on investment companies. The companies themselves are perhaps the most useful sources. Open-end organizations are required by law to furnish potential stockholders with a prospectus, and closed-end companies are usually quite willing to provide copies of annual reports and other pertinent data. Another valuable source is Moody's *Bank & Finance Manual* which offers a brief description of each company's history and financial

operations. This volume, published annually, is available for reference in brokers' offices, banks and public libraries. Important data can also be had by checking the registration statements of various firms on file with the SEC. These statements, in addition to their valuable comments on the company, contain information about the business background and experience of its key management personnel.

Bring junior for size



WHEN out buying shoes for your child, always take him with you, since memory is usually a poor judge of a growing child's shoe size. Both feet should be measured—while he is standing as well as sitting—to determine if there are any differences in length. Make sure the sole fits well into the arch and is made of firm material. The toe of the shoe should be rounded and the tip should be at least one-half to three-fourths

of an inch longer than the child's big toe, so there is enough room for the toes to grip when walking. For a child of six or under, the heel should not be more than one-fourth to one-half inch in height. As he grows older, it can be increased to one inch.

Insurance for the uninsurable



THIS NEWS will interest people who have been refused a life insurance policy because they were considered health risks. Many insurance companies have begun to liberalize their extra-risk policies, so that a considerable number of applicants previously categorized as *uninsurable* have been granted coverage. In particular, middle-aged people with heart conditions have benefited. It might be wise to investigate.

Fiscal photos



A RECENT directive by the U. S. Internal Revenue Service now permits taxpayers to submit photocopy reproductions of their tax forms. This will eliminate the time-consuming necessity of recopying in ink or typewriting forms prepared in pencil by accountants, tax consultants and other individuals. Most important, it will remove the possibility of

errors in transmission. To be acceptable, both the original form and filled-in matter must be legible.

To get a driver



WANT TO find someone to drive your car for you?

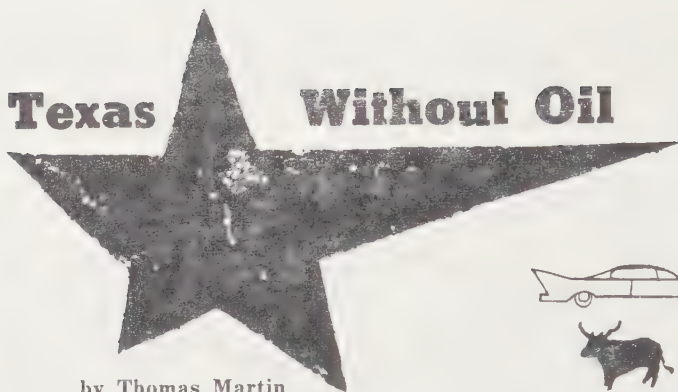
Get in touch with the National Car Travel Bureau, 1535 Undercliff Ave., New York 53, N. Y. This organization will help you locate a bonded driver and give you a fair estimate of the rates to any part of the country. But before you do anything, make sure you have collision and liability insurance.

Not always cornering



THIS IS not to discredit corner locations for retail stores, but the fact that they generally cost more to buy or rent does not always mean they are the most desirable. In many instances, storekeepers have capitalized on the consumer's tendency to shop from store to store by selecting a location in the middle of the block. They believe the wandering customer is more likely to catch sight of the store. Another argument against corner locations is that traffic around them may be too fluid, forcing people to hurry by the store to make the green light.—L.B.

Texas Without Oil



by Thomas Martin

A balanced economy is more important than a bonanza

TO MOST PEOPLE, Texas means oil. Half of the nation's oil has traditionally been produced in Texas. Oil production provides Texas with more of its annual tax dollars than any other single industry, although it is not the state's biggest source of tax revenue; this distinction belongs to taxes levied on the consumption of motor fuels. Producers span the state, from the cluttered and storied east Texas fields, to the raw, bustling, latter-day concentrations at Scurry and other west Texas counties. The oil lobby, itself a hybrid catering to the interests of minority factions within the industry, dominates the state legislature, and it is the oil interests which generally put up the big money in national and state-wide political campaigns.

The "oil strike" and the "boom

town" continue to be an important spur to business enterprise. At a time when some believe that the federal tax rate has become confiscatory, oilmen, with their invaluable tax depletion allowance, stand in a class by themselves. Almost alone among modern entrepreneurs, they can still accumulate tremendous fortunes.

All these things are, of course, true, and they stand as significant testimonials to the vital role oil plays in the economic and social structure of Texas. But they obscure the fact that Texas is in a state of chronic, even intense, transition that is keyed to a diversity of resources and activities as varied as the extremes of the Texas climate. Important as oil is, it is merely one aspect of a many-faceted tableau.

From a negative standpoint, per-

haps the best proof of this is that for the first time in modern Texas legislature history the politicians are seriously discussing both a state income tax and a sales tax. To date, Texas oilmen have shouldered a heavy share of the state's tax burden. But this year, competitive foreign oil imports, the growing substitution of natural gas for oil in the domestic fuel market, and declines in the demand for oil itself have forced Texas oilmen to curtail their producing capacity.

The result has been an equally drastic drop in tax revenues, so that fiscal observers at the state capital expect substantial revenue deficits for the next two fiscal years. For a state that has traditionally enjoyed a balanced, even a surplus, budget, this is a significant development.

But there is other evidence which suggests that while oil is still the area's dominant economic influence, the economic and social structures of Texas no longer depend on it.

Thus, while the oil industry has been depressed for months (roughly, since the Suez issue was quieted), Texas is one of the states least affected by the current economic recession. Department stores and other retail outlets, with the exception of the national-

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ly afflicted automobile market, have continued to report steady, even increased sales. Farmers who only last year began to emerge from the region's most acute drought since the early 1930s, look forward this year to bumper crops of cotton and wheat, rice and grain sorghums. Cattle and sheep men in the southern and western plains of Texas have, for the first time in six years, begun to restock their herds and are today experiencing a new prosperity. Surely, if the state were as dependent on oil as it once was on its agriculture, the oil depression would be producing a more marked and widespread general recession.

The fact is that the influx of modern industrial plants has now become widespread and diversified enough to offset any depression in oil. Along the Gulf Coast, near Houston, Beaumont and Corpus Christi, land that once produced rice or fed cattle now supports steaming plants of Texas Gulf Sulphur Co., the Celanese Corp. and others. In the great aircraft factories near Fort Worth and Dallas, new defense needs have produced increased orders for Chance-Vought, Convair and Bell Helicopter. A score of new electronics firms, born of the atomic age and now nourished by the missile age, have suddenly sprung into prominence.

The banking and financial ac-

tivities of the state have also taken on a new importance. The Southwest's two leading banks—the Republic National and the First National, both of Dallas—have attained prominent positions in the national rankings. Seemingly from nowhere, Texas today has more insurance companies than any other state, with 1,800 companies of all sizes operating within its borders.

Industrial expansion

While Texas has been able to maintain its position as the country's leading cotton producer and raiser of sheep and beef cattle, it has also become the nation's leading producer of aluminum, the tenth biggest steel producer and the dominant insurance center west of the Mississippi. At Houston, which until recently was more or less land-bound, a wider and deeper ship channel has opened a gateway to the Gulf of Mexico, through which the raw materials of petroleum and petroleum products are carried at an increasing rate. The channel has catapulted the port of Houston from a lethargic cotton shipping point to a position where it now competes vigorously with New Orleans for the rank of number two port in the nation. Texas also houses a tremendous military establishment with a score of Army and Air Force bases that pump a

steady stream of dollars into the state's business life.

Texas has entered a new era in its much-publicized growth. Industrial expansion during the decade from 1940 to 1950 turned out to be greater than during any decade in the state's history. Part of this growth resulted directly from the general, postwar industrial expansion enjoyed by most sections of the country. But a healthy share of it resulted from the favorable economic climate that pervades the Lone Star State, its eagerness to accept new industry, its highly desirable tax structure (no sales, income or corporate income taxes) and its growing, but still largely unorganized, labor movement.

What changes have been wrought in the Texas way of life by this economic transformation? What are the major problems that Texas faces as it moves from a lopsided reliance on one industry—oil—to a more widespread dependence on a variety of economic activities?

Despite the clamor of import-conscious oilmen and their well-financed public relations corps, there is broad general agreement that Texas possesses one natural resource more precious and vital to its well-being than even oil—water.

Texas, for the most part a flatland, relies almost entirely on

underground water that years ago fell as rain, seeped down through successions of earth strata and today forms accessible well supplies. But as the population shifts from the country to the cities (today half of the population of Texas lives in cities of 10,000 or more) and as industry moves in and makes stiffer demands on the existing water supply, the need for water—and, more importantly, for intelligent water planning—becomes more acute. The current proposal, for example, would line the Trinity River with a series of dams that could capture much of the rainfall and runoff during good moisture years. Up till now, this water has been largely wasted.

Commanding stature

As the dominance of oil in the state's fiscal and political life recedes, new sources of revenue will have to be tapped. Those who provide these new sources will then begin to assume a more commanding stature in the destiny of Texas. This is already happening. Dr. Carey Thompson, Professor of Economics at the University of Texas, warned bluntly while testifying before the Texas State Tax Study Commission this year that "the sources of revenue long relied upon in this state" cannot withstand continued exploitation in hopes that they will provide the same proportion of the state's

revenues. Dr. Thompson, obviously, referred to oil.

No less important to the future general welfare and economic vitality of Texas is the swift and sensible resolution of that great social problem that plagues the entire South, the integration question. Until now, Texas has been able to live on the fringe of the dilemma. Although some districts have quietly desegregated, there have been no major attempts to enforce desegregation here. But the time is rapidly approaching when the state will have to come to grips with the problem. Already, the Dallas school board, for example, has been ordered by higher courts to integrate that city's schools with all deliberate speed. The manner in which it reacts to the order will undoubtedly play an important role in the future decisions of national industry to move to the city; and similar situations will confront other Texas cities as well. One has only to study the effects of the Little Rock situation on the expansion of business in that state to realize that there is a direct link between a healthy social climate and an expanding industrial base.

These problems notwithstanding, the economic and social progress of Texas shows little signs of faltering. Indeed, Texas' future is as bright as that of any other

state, and brighter than most.

For one thing, there appears to be no letup in the continued population increase. The most conservative thinking puts the 1965 population at something over 10 million, a move from sixth to fifth in the national rankings.

For another, the discomfort caused by the broiling Texas summers—a genuinely discouraging factor to modern, comfort-conscious business—has largely been eliminated with the introduction and almost universal application of air-conditioning.

Finally, there is no longer the feeling that life in Texas is a backwoods existence, devoid of cultural stimuli. Indeed, the state today is experiencing a dynamic cultural development. It is not uncommon to see three, or even four, major theater groups—as in Houston and Dallas—at work, or first-rate symphonies like the Houston organization under the direction of Leopold Stokowski. Today, the arts command a constant and respectable degree of financial support from well-heeled, culture-conscious Texans.

There is perhaps one additional factor that promises to affect

Texas' emergence as a diversified economic and social force. This is the largely outmoded, but highly emotional concept of federal financial assistance. It is, in its Texas applications, an anomaly.

Most Texans, for example, see nothing objectionable in accepting federal aid for highway construction, for farm subsidies, or in a variety of other forms. Yet, in general, a large segment of the population is staunchly opposed to the acceptance of federal aid to education in the form of school construction. There is even opposition to federal aid for badly needed urban renewal in some of the larger cities.

Sooner or later, however, Texas will have to face up to the question of federal aid. Perhaps, as its own resources lag in meeting the needs of a modern industrial state, Texans will swallow a little of their king-sized pride and accept what they now contemptuously refer to as "federal handouts." After all, Texans really need have no fear of being "swallowed up" by the federal government (as they are quick to point out in rejecting federal funds). Texas is much too big to be digested easily. ■

Lone Star Leak

TALES about Texan pride have become almost legendary. One of the Lone Star State's younger citizens, while on a sight-seeing tour of Niagara Falls, astounded a Canadian guide with his reply to the guide's comment: "I'll bet this is one thing you don't have in Texas." "Nope," admitted the Texan, "but we got plumbers who can fix it."



The Permanent Frontier: No. 9

The spirit of the American West was inspired by national land policy and the initiative of the small, but independent landholder

THE FIRST great era of Western development—between 1815 and the Civil War—saw the United States grow vastly in territory, population and wealth. Total land area more than doubled. Population rose fourfold, to 31.5 millions. National wealth multiplied fivefold.

With the exception of the Florida Territory (ceded by Spain in 1819), all territorial additions came in the West: Texas (1845), the Oregon Territory (1846), and the Mexican Cession (1848). Westward movement of population was no less dramatic. In 1815 about 1.5 million people were living west of the Appalachian Mountains. By 1860 their numbers had increased tenfold, amounting to 50 per cent of total population.

In the North, after 1815, most settlers went to the upper Ohio region, and onward into the upper Mississippi and Missouri valleys. With the completion of the Erie Canal in 1825, the Great Lakes

area and later the prairies became a major objective for increasing numbers of New Englanders and pioneers from the Middle Atlantic States.

In the South, the early westward movement was composed of backwoodsmen, then small farmers and sons of planters who came from Virginia and the Carolinas. They joined others who went upriver from Alabama into Tennessee and Kentucky, and from New Orleans into northern Louisiana, Arkansas, Missouri and westward into portions of Texas.

In the Far West, the Gold Rush lured thousands to California. Migrants from the Southern uplands and the Middle West pioneered thriving settlements in Oregon. Thousands of Mormons, New Englanders and Middle Westerners arrived in Utah.

Significantly, the westward movement tended to shift from South to North—a factor determined largely by European immi-

gration. The number of Europeans arriving in the U. S. before 1830 was small, less than 250,000 in 30 years. During the next four decades, however, five million came, more than half during the 1850s alone. They still came mostly from England, but during the 1840s they also came increasingly from Ireland and Central Europe, chiefly Germany. Most of the Germans went to the Northwest. They settled the river and lakeshore towns and adjoining farm areas.

Land and opportunity

The paramount reason for going West was *land*—the desire for a farm, the *opportunity* for an independent livelihood. There was also the desire to obtain land and resell at a profit. Speculation was an accepted part of American life, a side activity for many men. Only the large speculators were described as “land grabbers.” Until a more liberal land policy was instituted in the 1860s, the small farmers—those who could be satisfied with a modest tract—were virtually at the mercy of speculators whose extravagant activities swelled land values.

The policy of the federal government was designed to make the public lands available to cultivators, not to speculators. But it proved well-nigh impossible to outwit them. True, speculators could not obtain lands as cheaply as be-

fore passage of the Land Ordinances (1784, 1785, 1787), but they still managed to buy up tremendous tracts at auctions at close to minimum price. They accumulated holdings that frequently numbered hundreds of thousands of acres.

The prospect of a free, richer life in the West no doubt exerted a strong “pull” on westward movement. But how great was the “push” exerted by conditions back home, in the East and Europe?

First, of the Eastern migrants, the majority came from small places. (Half of those from New England were from settlements of less than 5,000 people and fewer than 10 per cent came from cities of 100,000 or more.) Second, not many wage earners went West. For them opportunity lay chiefly in the growth of factory employment at home, not in the faraway presence of cheap land. A man whose only experience was the mill or factory could not readily turn to farming amid totally unfamiliar conditions. Also, considerable capital was needed for the move West—500 to 1,000 dollars, excluding the cost of the land.

Western settlement was a unique and wholly successful form of “colonization.” Never before

This is the ninth article of a series in CHALLENGE which deals with the history and development of the United States economy.

attempted in like manner, this colonization of the land combined independence with paternalistic government encouragement. It combined freedom with union. From the first the land was defined as the "public domain." Increasingly, the land and its bounty became the province of the individual citizen, who came to figure first in national policy.

Federal land policy

As laid down in the Land Ordinances, federal land policy contained four major features: (1) new territories were to be admitted to the Union on equal terms with the older states; (2) title to land was to pass unencumbered to the purchaser, precluding primogeniture, entail or the payment of rents; (3) public lands were to be sold at auction in "sections" of 640 acres at no less than one dollar per acre; (4) The Northwest Ordinance, (1787) provided for the abolition of slavery in the territories, guarantees of civil liberties, and set aside land areas for public education.

By 1820, Western farmers, speculators, Eastern labor organizers, all advocates of a more liberal land policy, were gaining the upper hand against Eastern capital interests who claimed that freer entry to the West would raise wages inordinately. The cost of a minimum-size farm was

pulled down from 1,280 to 100 dollars. Subsequent legislation brought still further liberalization. A complete victory was won when the Homestead Act of 1862 provided 160 acres to anyone who worked them for five years.

Inseparable from land policy was the West's overriding concern with internal improvements, particularly more and better transportation that would provide access to markets, raise the price of Western produce, lower the price of goods brought from the East, attract streams of settlers and set the values of titled, improved land on an unending upward spin.

As early as 1808, the federal government proposed a comprehensive road-building program, but opposition, rationalized on constitutional grounds, came from the older states that stood to derive little benefit. After 1828, road-building, together with what now became an orgy of canal construction, was left to the Western state governments.

High capital requirements and slow returns on investment engendered little enthusiasm on the part of individuals who put money in state bonds but built only a few roads and small canals themselves. Of the state-fostered projects, the Erie Canal was the single-most important factor in establishing the West as an organic part of the national economy.

The East gained over the South in shaping the West's economic development. Eastern bankers advanced credit to Western packers and millers on the security of commodities to be shipped East. No longer had the harvests to be rushed downriver to New Orleans. Now they could be stored until the spring thaws opened the waterways. Additional canal construction, and then the railroad, further set East-West trade patterns.

Throughout the two major eras of Western development, before and after the Civil War, emphasis on spending for internal improvements was accompanied by a determined effort on the part of the new Western states to establish easy credit. Literally hundreds of "wildcat" banks, empowered to issue paper currency were chartered. Such a money policy would and did attract thousands of settlers, most of whom were heavily indebted by mortgages and equipment loans. Individual obligations were paralleled by the extravagant indebtedness of state governments. Less than 13 million dollars in 1820, state debts had doubled by 1830, and rose to 200 million dollars by 1840.

The Panic of 1837 suddenly awoke the states to the folly of heavy spending and indebtedness. Increasingly, state constitutions forbade the sort of enterprise which had nearly canceled state

credit. Because public ownership was no longer deemed feasible, the railroads were now given over to privately controlled companies that eagerly bought out state interests and combined with Western state legislatures to seek federal aid in stimulating rail construction. Beginning in the late 1840s, federal grants were made to the states and in turn awarded to the railroads. Federal land grant assistance, coupled with a period of prolonged prosperity following the panic, gave impetus to rail construction on a grand scale, connecting all the major markets of the old Northwest, and linking Chicago and St. Louis with the East to make a truly interregional system of transport.

Shifting emphasis

The first, most obvious consequence of Western development was the rise of its influence in national political and economic affairs. (By 1860, the West measured four-fifths of the nation's territory, one-half of the population.) Between 1851 and the onset of the Civil War, 12 new states were admitted to the Union, holding 24 of the 66 seats in the Senate. Moreover, all but three (Arkansas, Mississippi, Texas) of the new states were "nonslave." Western development had swung the balance to the "North," politically and economically.

Western development altered the basis of the nation's agricultural economy, shifting the emphasis from local subsistence farming to regional, specialized crops produced for a national market, and increasingly for export to Europe. Western farmers adopted the latest production methods. They concentrated on a few major crops and specialized in those for which their land was best suited. The land was rich in a variety of climate and soil. The combined revolution in agriculture and transportation cornered new and distant markets which had once been the reserve of local farmers. The effects on the nation's economic and political life were far-reaching:

With the opening of the Erie Canal, increasing quantities of wheat, flour, corn and meat flowed East. The forging of rail connections climaxed the tightening pressure on Northeastern farmers. It is not surprising that their sons provided the major source of emigration to the West.

Regional political alignments shifted. This is perhaps best illustrated by the West's complete about-face on the issue of protective tariffs. The West had nothing to gain by a protective tariff,

for it now produced a surplus of crops that sold at world market prices. On the other hand, it complained raucously of the existing tariff's tendency to raise the price of manufactured goods brought from the East.

As late as 1846, when Congress struck a smashing blow to the protective system, the West, along with the South in opposition to Northeastern manufacturing interests—was in the vanguard of the majority that did the execution. Just 11 years later, the West cast 33 votes against tariff reduction, only 14 for it. Such a sharp reversal cannot be construed in terms of protective benefits for the West, but as a clear-cut manifestation of a basic realignment among political forces, and a strengthening alliance between Eastern investment capital and the West's ambition for development.

As the historian Charles Beard has put it, East and West had been bound together as by "bands of steel and gold." The mills and the factories of New England and the Middle Atlantic States reaped the benefits of protection, and in return for its support, the West was granted the two concessions it wanted above all: more free land and internal improvements. ■

SINCE the October issue of CHALLENGE will be devoted exclusively to the theme, "the new capitalism," the tenth article in *The Permanent Frontier* series will not appear until the November issue, when we will take up the ante-bellum South.



WHEN

Money

by Stephen W. Rousseas

TRAVELS TOO FAST

Increased velocity counters anti-inflationary action and intensifies the force of the deflation to follow

THE WEAKNESS in our policy of relying on monetary controls to combat inflation became sharply evident during the last boom. We have even more cause to be concerned in a period of continued recession. Much of the force of the downswing can be attributed to the momentum gained when the economy fell from the inflationary peak.

A better control of the boom would have reduced the magnitude of the succeeding slump. What happened to our monetary policy? How can we improve matters?

Monetary policy was our primary anti-inflationary policy. We made no effort to use other controls or bring fiscal measures into operation. This shift occurred in 1951 when the Federal Reserve

Board was charged with controlling the boom by regulating the money supply. It could manipulate the amount of money in circulation by buying or selling government securities, and by changing the reserve requirements and discount rates of the commercial banks.

Central banks are conservative institutions which are in constant fear of doing too much too soon. They tend to apply their power so late that it is time to reverse direction at the moment the monetary restraints begin to take effect. The FRB thus suffers from the malady of being perpetually one step behind itself.

Furthermore, the attempt to contain inflationary pressures exclusively through monetary con-

trols is like trying to keep water in a bucket with sprung sides. Less water will pour out of a given leak if the FRB applies its finger to the spot. But this puts more water pressure on the other cracks and new leaks develop. The situation becomes impossible, even for a polydactyl central bank.

The major leakage comes through the velocity of money, the annual turnover rate. An economy need not match the value of its gross national product in equal quantities of dollars. Money is continually being passed from hand to hand and thus does double and triple duty. The table on page 74 shows that the average dollar changed hands from 2.85 to 3.25 times annually over the periods studied.

In the second quarter of 1951, for example, the velocity was 2.85, while the actual money supply was 115.7 billion dollars. With each dollar serving 2.85 times, the money supply was sufficient to pay for a GNP of 329.3 billion dollars. In other words, $GNP = \text{money supply} \times \text{velocity}$ ($329.3 = 115.7 \times 2.85$). The equation must balance by definition, and if the money supply were reduced with no change in GNP, the velocity would have to increase.

The table illustrates the rela-

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tionships for the 1951-53 and 1955-57 inflationary periods. It also shows the movements in the interest rate for short-term government obligations called Treasury bills.

The new monetary policy of 1951 was signaled by the FRB-Treasury accord in March of that year. For 20 years the FRB had been committed to supporting the government bond market by buying the required quantities of bonds. This guaranteed the Treasury a ready sale of bonds at advantageous interest rates, but it acted as an inflationary pump. The new accord freed the FRB from its obligation; government bonds were left to find their own level and the FRB was free to take anti-inflationary action by regulating the money supply.

The FRB needed time to adjust to its new powers and it made no great effort to use them. The money velocity remained relatively stable from the second quarter of 1951 to the third quarter of 1953, increasing by only 1.8 per cent from 2.85 to 2.90. The GNP increased by 37 billion dollars, 11.2 per cent. The money supply had to increase from 115.7 to 126.3 billions, 9.2 per cent, in order to keep the equation in balance. By permitting this rise the FRB avoided putting itself to the test.

But the 1955-57 period was different. The inflation of the first

period was somewhat excused as a concomitant of the Korean War; the FRB could not face the inflationary burst of the second period with a similar equanimity. It reacted by a tight money policy that kept the money supply relatively constant.

Supply versus velocity

The money supply increased by only 3.6 billion dollars, or 2.7 per cent, from the first quarter of 1955 to the third quarter of 1957, compared with 10.6 billions, or 9.2 per cent, for the 1951-53 period. Velocity shot up by 12.6 per cent—from 2.89 to 3.25—in the later period, against 1.8 per cent in the first interval.

The stringency of the tight money policy is shown during the end of the recent boom. The money supply increased by the insignificant amount of 900 million dollars, less than one per cent, from the second quarter of 1956 to the

third quarter of 1957. Yet money velocity went from 3.07 to 3.25, or 5.9 per cent, permitting a GNP increase of 28.2 billion dollars. During the whole 1955-57 period, GNP increased by 60 billions, or 15.8 per cent.

Keynesian economics emphasized the need for effective monetary policy. But it is a big jump from admitting the need for intelligent money management and depending on it to accomplish functions beyond its powers.

In Keynesian theory, the rate of interest is regarded as the reward for not hoarding. A tight money policy drives interest rates up and attracts idle money into the money market. Idle balances may take the form of corporate cash balances, uncommitted funds of insurance companies and mutual loan and savings associations, and various corporate and union pension funds—all uncontrolled by the FRB. While the FRB was holding

Relation of gross national product, money supply, velocity and treasury bill rate for new issues					
Year	Key Quarters	GNP (in billions)	Money Supply (in billions)	Velocity	Bill Rate (%)
1951	1	\$329.3	\$115.7	2.85	1.532
1952	2	340.1	122.9	2.77	1.678
1953	2	367.4	126.2	2.91	2.203
	3	366.3	126.3	2.90	2.022
1955	1	379.0	131.3	2.89	1.456
1956	2	410.8	134.0	3.07	2.597
1957	3	439.0	134.9	3.25	3.382

the line by pressure on the commercial banks, money from these alternative sources was pouring into the economy and the increased velocity neutralized the tight money policy.

The relation between monetary policy, interest rates and velocity changes can be illustrated in terms of the Treasury bill rate on new issues. Interest rates on private loans usually follow this rate and an upward movement means a general credit tightening. The table shows what happened.

Attractive interest rates

The bill rate increased from 1.678 to 2.203, or 31.3 per cent, in the year period from the second quarter of 1952. Money velocity was increasing 5.1 per cent in that year. After a drop during the 1954 recession, the rate rose from 1.456 to 3.382, or 132.3 per cent, from the first quarter of 1955 to the third quarter of 1957. At the same time velocity rose sharply from 2.89 to 3.25, or 12.5 per cent.

Thus velocity increased in response to the great rises in the interest rates. On the one hand, lenders were encouraged to put their money to work by attractive interest rates. On the other hand, borrowers had such optimistic profit expectations that they were willing to pay high prices for the money. An extraordinarily high interest rate would have been neces-

sary to dampen the borrowers' enthusiasm. Such an increase would have been followed by large negative changes in the state of expectations; it would have been like applying a neck tourniquet to stop a nose bleed. Not daring to risk such violent action, the FRB kept the money supply nearly constant and made no effort to reduce it.

The FRB exercises its powers through general monetary controls. It makes no effort to pick out sectors of the economy and say that they will pay more or less interest rates for funds. Supporters of general monetary controls emphasize that they are impersonal and that they are more compatible with a free economy.

But a change in general controls will have an unequal effect on the various seekers of money, particularly because their power positions are unequal. A big company can always borrow money more easily than a small one; this situation is more pronounced in a tight money period.

There is also the possibility that monetary policy will result in a deflation not so much by restricting money as by creating distortions in the economy. The weaker companies may suffer insupportable strains, lacking reserves and other sources of strength. Thus, general monetary controls can result in irreversible structural changes, bankruptcies in small

firms and gigantism in large ones, which further weaken control efforts in subsequent inflations.

Under these circumstances, there is perhaps no alternative to direct and selective financial controls. The government may find them necessary in order to ration credit in accordance with social priorities and the economic condition of the various sectors of the economy. It would be necessary to have a strengthened central bank organization [see *Assessing the Fed*, CHALLENGE, March, 1958] with extended power over the various institutional leakages in our monetary system.

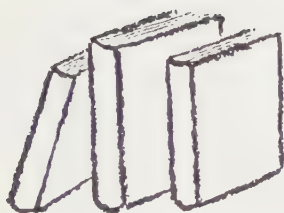
We have seen that velocity is a simple name for disparate but interrelated economic forces. The figures that show money turnover in a given year are a compound of the movements of the various kinds of money. The FRB exercises some restraint over commer-

cial bank funds by manipulating discount rates and reserve requirements, and by open-market operations in government bonds. But these controls do not extend over the other credit sources, and velocity increases are a composite of all the leakages in monetary policy.

Who should exercise this extended control over the other credit sources? Should it be the FRB? Or should we have a National Economic Council that includes representatives from the FRB, the Treasury and other government agencies? These questions are a matter for further discussion. But the power to control velocity, to keep it from neutralizing our monetary policy, must be exercised somewhere in the government. Otherwise we place ourselves at the mercy of wild swings in the economic cycle and their disastrous effects. ■

Soviets Rich in Medical Personnel

ACCORDING to latest statistics, Russia has 2,750,000 trained doctors, nurses and other health personnel—better than one out of every 100 citizens. Soviet medical schools turn out 16,000 physicians annually—about twice as many as the U. S. By 1957 figures, the Soviet Union had 164 doctors per 100,000 people as compared to our 130 per 100,000. Three out of every four Soviet doctors are women. In terms of training, the Russian physician receives only 16 years of formal education before he is allowed to practice, while his American counterpart receives 22. Since there is no “family doctor” in the Soviet Union, physicians never enter private practice. Instead they work at state-controlled polyclinics, where they are on duty for certain hours daily. The care the patient receives at these clinics may not be up to American standards, but most experts believe it to be quite thorough and humane. Improvements in sanitation and contagious disease control have come about through adoption of American methods.



READING REPORT



The Affluent Society. John K. Galbraith. 368 pp. Boston: Houghton Mifflin Co.

•Prof. Galbraith, the iconoclast from Harvard, has written an important book in a style which assures him of the wide readership which he unquestionably deserves. This is not to say that all readers will agree with him, and even those who do may feel that he has rather overstated his case. In brief, Prof. Galbraith questions the validity of traditional criteria for evaluating the "affluent society" in which we live. He particularly objects to the emphasis on production (or rather the producer) which, in his opinion, has led to serious distortions in our allocation of resources. An oversupply of certain durable goods is matched by deficiencies in such social services as health, education, etc. The critic, while agreeing with much that Prof. Galbraith has to say, might object that these deficiencies are less a matter of economic organization than of the personal values which underlie our decisions as consumers and citizens.

* * *

Foreign Policy: The Next Phase. Thomas K. Finletter. 208 pp. New York: Harper & Brothers. \$3.50.

•This edition of his Elihu Root lectures at the Council of Foreign Re-

lations indicates Finletter's efforts to break us out of our defensive position vis-a-vis the Soviets. But the ideas presented under the chapter head, "An Offensive Strategy," are singularly inoffensive. The former Air Force Secretary is aware of the nonmilitary proportions of the problem, but he shows little imagination in treating the economic and social components of a foreign policy. His offensive strategy contains no specifics on pushing the Soviets out of captive territory, a negative that is balanced by the insubstantial character of his disarmament proposals.

* * *

Management in a Rapidly Changing Economy. Edited by Dan H. Fenn, Jr. 339 pp. New York: McGraw-Hill. \$5.00.

•This collection of papers presented at the 27th Annual National Business Conference of the Harvard Business School Association touches on most of the problems created by a changing economy. As antidote to recession-darkened thought, all of the writers and speakers concern themselves with the demands of prosperity and apparently regard slumps as minor interruptions. A statistical note shows the revolutionary changes we have already seen: in 1924, 85 per cent of our

steel output went into the capital goods industries; in 1956, steel was divided equally between capital and consumer goods. Some of the case history discussion suffers from permissiveness; long accounts of the tribulations of two executives end with the comment that both certainly have tough problems to solve. One might also wish that these business representatives had thought more deeply about the society in which they do business.

* * *

India Changes. Taya Zinkin. 233 pp. New York: Oxford University Press. \$5.00.

•This book is an affectionate and informed tribute to India by a woman who has lived there for many years. The four parts of the book—"India As It Was," "Personal Changes," "Social Changes," "Political Changes"—portray a multiple revolution in beliefs and living patterns. Mrs. Zinkin dispels many of the mysteries of India, but her sensitive and knowledgeable descriptions are ample compensation for the loss of some glamorous illusions.

* * *

The Promise of Modern Life. D. W. Gotshalk. 116 pp. Yellow Springs, Ohio: Antioch Press. \$2.50.

•Prof. Gotshalk attempts to pour all of world philosophy through the tight funnel of his personal philosophy. Nothing comes out, and his book title remains unfulfilled. Seeing a world in which there is an antagonism between individual creativity and society, Gotshalk wants to organize all humanity in terms of social purposes. Thus he cites approvingly the Soviet effort "to con-

nect [the arts *inter alia*] with the life of the people," although he deplores some of the implementation. This evokes the entrancing view of a Shakespeare, for example, re-writing Hamlet better to fit the social purposes of the Elizabethan state.

* * *

The Ordeal of Woodrow Wilson. Herbert Hoover. 318 pp. New York: McGraw-Hill. \$6.00.

•The thing that strikes one in reading these interesting reminiscences about one former U. S. President by another is how much the two have in common. Both Hoover and Wilson were idealists who lacked the ability to transmit their idealism to those around them, and suffered the consequences of public misunderstanding. Because they have so much in common, these generous recollections of Wilson at the time of his "ordeal" by a man who participated in the peace negotiations, and later, as director of Relief and Reconstruction sought to undo some of the economic damage of the treaties, tell a great deal about Wilson the man that more scholarly tomes usually leave out.

* * *

African Economic Development. William A. Hance. 306 pp. New York: Harper & Brothers. \$4.95.

•Africa has defeated many sanguine hopes of its developers. Hance has made a careful compendium of economic projects but his judgments end in a trickle of conditionals. He makes no effort to establish a proportion between potentials and realities, and his portrait of Africa emerges pallid and inarticulate. ■



Challenge Quiz

HOW WELL can you do with this true-false quiz? Test your ability to increase your knowledge through reading. Ten correct answers is Excellent; 9, Good; 8, Average. If you do the quiz *before* reading the articles, 6 correct answers is Good. Answers on page 29.

- | | |
|--|--|
| <p>(1) The current recession has led many large corporations to abandon their long-range investment programs.
True ☐ False ☐</p> <p>(2) During the 1955-57 boom, there was relatively little increase in money supply.
True ☐ False ☐</p> <p>(3) The cost of steel on an average automobile amounts to 25 per cent of the price.
True ☐ False ☐</p> <p>(4) The setbacks of the oil industry have had a negligible effect on the growth of the Texas economy.
True ☐ False ☐</p> <p>(5) Lotteries were banned throughout the United States before the outbreak of the Revolutionary War.
True ☐ False ☐</p> <p>(6) A common market among nonindustrialized nations promises little in terms of economic development.
True ☐ False ☐</p> | <p>(7) Congress has continuously raised social security benefits without increasing the tax rates to support them.
True ☐ False ☐</p> <p>(8) After the War of 1812, all U.S. territorial acquisitions came in the West.
True ☐ False ☐</p> <p>(9) The high percentage of Americans affiliated with religious groups equals the record set during the Revolution.
True ☐ False ☐</p> <p>(10) The McClellan committee's discoveries have caused a sudden growth of organized opposition groups within many unions.
True ☐ False ☐</p> <p>(11) Our huge defense demands threaten to exhaust our supply of many minerals within the next 50 years.
True ☐ False ☐</p> <p>(12) Ricardo was the first professional economist to make a substantial contribution to economic theory.
True ☐ False ☐</p> |
|--|--|

DEPT. of BETTER MOUTHRAPS

Around the House: A ring pan that collects drippings from oven dishes; it can serve as a table centerpiece and is used as a spatterproof fry pan cover. . .A scouring pad handle that helps to clean difficult areas without hands having to touch the pad. . .A zippered case that will store plates and protect them from dust and chipping. . .A safety fuse that can be used for six individual blowouts, lighting up whenever a short circuit has occurred. . .If you can afford it, a screen cover for the swimming pool that keeps out leaves and debris, and is strong enough for tots to walk over.

* * *

Up in the Clouds: *An aerial reconnaissance camera that will take low altitude photographs from supersonic aircraft. . .A borescope that permits inspection of an aircraft's interior wing to determine if there are any structural defects.*

* * *

From the World of Industry: Hydrocarbon atmospheric lubrication that prevents steel bearings from shattering at high temperatures. . .A glass cutter that cuts in both directions. . .A radar system that permits faster scanning rates without range loss. . .A cork absorber for massive machinery that provides effective isolation from vibration, shock and noise. . .Industrial windows that bend, but do not break or

crack when struck; if jarred loose from their frames, they can be reset with an adhesive.

* * *

On the Waterfront: *A fishing lure that can be used in roots, lily pads, rocks, stumps and weeds without snagging. . .A combination depth gauge and thermometer, about the size of a fountain pen, that can be cast like a plug or used on a hand line. . .A nylon fish stringer that will enable you to hook a fish through both lips and keep him breathing. . .A two-hull-sectioned boat that folds up to become its own automobile trailer. . .An outboard motor carrier that can easily tote any motor up to 25 H.P.*

* * *

Comfort and Safety: A portable electric massage unit that plugs into a car's cigarette lighter outlet and works on your back while you drive . . .A spotlight that also fits a car's lighter outlet and throws a beam on road maps without disturbing the driver's vision. . .A nonexplosive anesthetic gas four times as effective as ether and twice as potent as chloroform.

* * *

Down on the Farm: *A plant tranquilizer that reduces the effects of shock and stress caused by heat spells, sudden cold snaps and too much or too little rain. . .A calculator that indicates to the farmer what feed prescription he needs to provide a balanced diet for his livestock. . .A "pigloo" or igloo-shaped pigpen that will reduce mortality among newborn swine; it is an eight-foot-diameter wooden house designed to keep the sow from rolling over and killing her nurselings.*

* * *

Write to CHALLENGE magazine for additional information. ■

Challenge

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INDEX

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Haig Babian, Editor

Agricultural policy

FARM SURPLUSES: LIABILITY OR ASSET?; excess farm production can be stockpiled for use in defense emergencies. Murray R. Benedict. Jun-Jul '58, pp. 13-17.

STABILIZING COMMODITY PRICES; violent fluctuations in the prices of internationally traded commodities cause great problems, particularly for underdeveloped nations. Ben T. Moore. Jun-Jul '58, pp. 27-32.

Business cycle

ADMINISTERED PRICES—A NEW INFLATIONARY VILLAIN?; Jules Backman. Oct '57, pp. 21-24.

CAPITAL GOODS RECESSION?; business investment acts as a brake against a downward swing that has been caused by other economic factors. Dexter M. Keezer and Margaret K. Matulis. Aug-Sep '58, pp. 49-53.

DEFENSE SPENDING AND THE BUSINESS CYCLE; defense spending can be used for economic stability—but it can also act as a bad substitute for sound national policy. William S. Vickrey. Apr '58, pp. 24-28.

DOES EXCESS CAPACITY MEAN RECESSION?; economic progress and industrial research have given new meaning to a word that once connoted a deflationary slump. Robert P. Ulin. Mar '58, pp. 49-53.

INFLATION AND GROWTH; in spite of steadily rising price levels, there has also been a remarkable improvement in standards of living. Arthur R. Upgren. Dec '57, pp. 73-76.

INFLATION AT HOME AND ABROAD; other countries have experienced inflations that make ours seem modest. Gardner Patterson. Dec '57, pp. 63-67.

INFLATION'S VICTIMS; big business and big labor have shunted much of the burden of inflation to unorganized economic groups. Robert Lekachman. Dec '57, pp. 13-16.

LABOR, PRODUCTIVITY AND PRICES; a labor economist says that prices have outrun labor costs and thus have caused the inflationary economy. Alexander Gerschenkron. Dec '57, pp. 27-31.

PRICES AND POLICY-MAKERS; monetary and fiscal policy alone cannot stem the inflation tide. Edwin G. Nourse. Dec '57, pp. 39-44.

REBEL IN RUSSIA; economists in the Soviet Union have as much trouble explaining inflation as dealing with it in their planned economy. Alexander Gerschenkron. Dec '57, pp. 58-62.

SECULAR INFLATION AND SHIBBOLETHS; the official philosophies of important groups resist any thoroughgoing action designed to check

price rises. Martin Bronfenbrenner. Dec '57, pp. 17-22.

THE BEST DEFENSE; a labor economist argues that a full-employment economy is the first imperative in marshaling the nation's defense potential. Nat Goldfinger. Apr '58, pp. 63-66.

THE CONSUMER FACES RISING PRICES; is the buying public being habituated to persistent inflation? Eva Mueller. Dec '57, pp. 32-36.

THE POWER OF PRICE-MAKERS; do administered prices mean administered inflation? Jules Backman. Dec '57, pp. 23-26.

WHAT CAUSED THE RECESSION?; a slowdown in government and consumer spending, plus sluggish monetary reflexes, caught blithe business optimism unawares. Leonard Silk. May '58, pp. 8-13.

WHAT IS INFLATION?; inflation has assumed many roles and been called many names in the past. Albert G. Hart. Dec '57, pp. 8-12.

Consumer problems

CLASS LINES AND CONSUMERS; Americans of all classes show striking similarities in buying habits. Albert Lauterbach. Feb '58, pp. 72-76.

CONSUMER DEBT: WHO OWNS IT?; an amazing variety of credit facilities have emerged to finance the insatiable desire to buy on time. Kurt F. Flexner. Oct '57, pp. 63-66.

HOW MUCH CUTBACK FOR CONSUMERS?; Americans must prepare to consume fewer private goods—but they can compensate by emphasizing the better, less costly things of life. Albert Lauterbach. Apr '58, pp. 72-76.

LILLIPUTIAN INVASION; foreign automobiles gain sales here because they ignore "standard" American taste in car design. James U. Steinfirst. Oct '57, pp. 59-62.

THE CONSUMER FACES RISING PRICES; is the buying public being habituated to persistent inflation? Eva Mueller. Dec '57, pp. 32-36.

WHAT MAKES THE CONSUMER BUY?; Americans do not make the "rational" choices assumed by classical economics. Victor Lebow. Mar '58, pp. 27-31.

Defense

A TECHNOLOGICAL ASSET; how will the growing emphasis on defense affect technological innovation? Challenge Editors. Apr '58, pp. 58-62.

A TRACT FOR THE TIMES; the President's Economic Report is a mirror wherein we may see reflected the major needs and strains of

the age of mobilization. Edwin G. Nourse. Apr '58, pp. 8-13.

DEFENSE SPENDING AND THE BUSINESS CYCLE; defense spending can be used for economic stability—but it can also act as a bad substitute for sound national policy. William S. Vickrey. Apr '58, pp. 24-28.

FREEDOM IN "FORTRESS" AMERICA; the citizen can maintain liberty in the face of increasing centralization if he uses the avenues of responsibility open to him. James D. Calderwood. Apr '58, pp. 45-49.

HOW MUCH CUTBACK FOR CONSUMERS?; Americans must prepare to consume fewer private goods—but they can compensate by emphasizing the better, less costly things of life. Albert Lauterbach. Apr '58, pp. 72-76.

MINERALS, DEFENSE AND GROWTH; our mineral supply can meet defense needs without hampering growth. Samuel G. Lasky. Aug-Sep '58, pp. 44-48.

THE BEST DEFENSE; a labor economist argues that a full-employment economy is the first imperative in marshaling the nation's defense potential. Nat Goldfinger. Apr '58, pp. 63-66.

THE FUTURE COSTS OF SURVIVAL; our economy can absorb a moderate increase in military spending, but major changes will require major sacrifices. Gerhard Colm and Manuel Helzner. Apr '58, pp. 20-23.

"TOGETHERNESS" IN A NEW CONTEXT; the objective of defense plus a high standard of living requires voluntary cooperation by big business and big labor. Arthur R. Burns. Apr '58, pp. 31-35.

WHO GETS WHAT—AND HOW MUCH?; a sound mobilization program depends upon wise resource allocation. Arthur W. Smithies. Apr '58, pp. 14-19.

Economics, general

MEASURING ECONOMIC WELFARE; a standard of living is more than an economic statistic. Bert F. Hoselitz. Nov '57, pp. 8-12.

THE CURRENT STATE OF ECONOMICS; an economist pleads for a more realistic wedding of theory and practice. Kenneth E. Boulding. Aug-Sep '58, pp. 18-22.

THE ECONOMICS OF CHANCE; unpredictability as a measurable factor in the economy. Richard E. Quandt. Jan '58, pp. 17-21.

THE SOVIET LIVING STANDARD; can we measure how well or badly the average Russian lives in the country of communized industry, agriculture and technology? Harry Schwartz. May '58, pp. 72-76.

THE UTILITY OF ECONOMISTS; what they can—and cannot—tell us. Haig Babian and Martin Kessler. Jun-Jul '58, pp. 62-66.

TOO MANY STATISTICS?; in spite of the flow of statistical materials, we still lack an integrated measure of the national economic health. William H. Chartener. Feb '58, pp. 62-66.

WHAT IS A SERVICE?; economists tell us that there has been an increase in the service area of the economy, but they cannot agree on what "services" are. Edward C. Budd. May '58, pp. 48-52.

WHAT IS INFLATION?; inflation has assumed many roles and been called many names in the past. Albert G. Hart. Dec '57, pp. 8-12.

WHAT MAKES WAGE DIFFERENCES?; geography and social institutions, as well as demand and supply are involved. Mark Leiserson. Mar '58, pp. 36-39.

Education

A NEW EDUCATIONAL PATTERN; modern business and industry have virtually created their own educational system for the future training of personnel at all levels. Harold F. Clark and Harold S. Sloan. May '58, pp. 53-57.

ANOTHER LOOK AT SCHOLARSHIPS; the proliferation of scholarship programs creates problems that need constant assessment and restudy. Carroll V. Newsom. Mar '58, pp. 42-46.

INDUSTRY TRAINS ITS OWN; company training programs boom throughout the nation. Spencer Hayden. Nov '57, pp. 69-72.

MEASURES OF MEN; can unusual ability be measured by preconceived criteria? David Felix. Oct '57, pp. 17-20.

SCHOOLING THE SOVIET SCIENTIST; the Russian education system produces a militant army of well-trained scientists and technicians for the cold-war strategy. Burton Rubin. Jan '58, pp. 13-16.

THE BRAINPOWER PROBLEM; we need better-trained minds, but it would be a mistake to turn our educational system into a factory mass-producing engineers and scientists. Dale L. Hiestand. May '58, pp. 19-22.

Foreign trade

INFLATION AT HOME AND ABROAD; other countries have experienced inflations that make ours seem modest. Gardner Patterson. Dec '57, pp. 63-67.

INSURING OUR FOREIGN INVESTMENTS; a little-known program protects American investments outside the U. S. against such risks as war and expropriation. Emile Benoit. Jan '58, pp. 58-62.

LILLIPUTIAN INVASION; foreign automobiles gain sales here because they ignore "stand-

ard" American taste in car design. James U. Steinfirst. Oct '57, pp. 59-62.

RUSSIA TIGHTENS HER LINKS WITH CHINA; Soviet experts and capital force-feed China with industrial modernization. Arthur S. Barron. Nov '57, pp. 22-26.

STABILIZING COMMODITY PRICES; violent fluctuations in the prices of internationally traded commodities cause great problems, particularly for underdeveloped nations. Ben T. Moore. Jun-Jul '58, pp. 27-32.

THE DYNAMICS OF THE TRADE GAP; dollar shortages represent growth pangs of a world in swift economic change. Edwin P. Reubens. Feb '58, pp. '57-61.

THE LIMITATIONS OF REGIONAL PLANNING; regional blocs have great potential—and problems to match. Edwin P. Reubens. Aug-Sep '58, pp. 30-34.

THE REGIONAL ECONOMIC BLOC; a practical application of the adage that in union there is strength. H. C. Wallich and R. L. West. Mar '58, pp. 8-12.

TRADE AND AID—THE HOPELESS CIRCLE?; how much choice does the U. S. really have in its world leadership? Shepard B. Clough. Nov. '57, pp. 17-21.

Government economic policy

ASSESSING THE FED; are the Federal reserve banks properly organized to meet the needs of private business and general public policy? Raymond Rodgers. Mar '58, pp. 18-22.

A TRACT FOR THE TIMES; the President's Economic Report is a mirror wherein we may see reflected the major needs and strains of the age of mobilization. Edwin G. Nourse. Apr '58, pp. 8-13.

CHANGING CONCEPTS OF MONOPOLY; recent Court decisions have broadened the class of antitrust offenders. Robert A. Solo. Oct '57, pp. 71-75.

COMPETING THROUGH TAXES; competition among states for new industries takes many forms, and tax inducements are not always the most important. Earl J. Weinreb. Nov '57, pp. 73-76.

FARM SURPLUSES; LIABILITY OR ASSET?; excess farm production can be stockpiled for use in defense emergencies. Murray R. Benedict. Jun-Jul '58, pp. 13-17.

HOW WASHINGTON MAKES ECONOMIC POLICY; economists take over important functions in all key federal agencies. Arthur L. Moore. Oct '57, pp. 54-58.

IS FAIR TRADE FINISHED?; fair trade practices have suffered reverses, but they still have force in important business sectors. Stanley C. Hollander. Jun-Jul '58, pp. 48-52.

IS THE SOCIAL SECURITY FUND SOLVENT?; social security financing is based on sound actuarial principles. Edwin E. Witte. Aug-Sep '58, pp. 25-29.

MOBILIZING THE MONEY; recent increases in productive capacity have kept investment needs for defense down to moderate size. Samuel S. Shipman. Apr '58, pp. 67-71.

PRICES AND POLICY-MAKERS; monetary and fiscal policy alone cannot stem the inflation tide. Edwin G. Nourse. Dec '57, pp. 39-44.

SHOULD WE HAVE A NATIONAL LOTTERY?; the federal government could decrease taxes, but the use of gambling revenue would be bad business for national policy. Leonard Baker. Aug-Sep '58, pp. 13-17.

THE BEST DEFENSE; a labor economist argues that a full-employment economy is the first imperative in marshaling the nation's defense potential. Nat Goldfinger. Apr '58, pp. 63-66.

THE FUTURE COSTS OF SURVIVAL; our economy can absorb a moderate increase in military spending, but major changes will require major sacrifices. Gerhard Colm and Manuel Helzner. Apr '58, pp. 20-23.

TOO MANY STATISTICS?; in spite of the flow of statistical materials, we still lack an integrated measure of the national economic health. William H. Chartener. Feb '58, pp. 62-66.

WHEN MONEY TRAVELS TOO FAST; increased velocity counters anti-inflationary action and intensifies the force of the deflation to follow. Stephen W. Rousseas. Aug-Sep '58, pp. 72-76.

WHO GETS WHAT—AND HOW MUCH?; a sound mobilization program depends upon wise resource allocation. Arthur W. Smithies. Apr '58, pp. 14-19.

Government economic regulation

BACK TO THE RANK AND FILE?; although there is room for more democracy, basic policy decisions must continue to be the responsibility of union leadership. A. H. Raskin. Aug-Sep '58, pp. 8-12.

CHANGING CONCEPTS OF MONOPOLY; recent Court decisions have broadened the class of antitrust offenders. Robert A. Solo. Oct '57, pp. 71-75.

REGULATING THE REGULATORS; recent disclosures about agencies like the FCC have revealed only part of the problem of assuring fair and effective operations. Louis W. Koenig. Jun-Jul '58, pp. 8-12.

THE NATURAL GAS CONTROVERSY; how do you set prices that are low enough for the consumer, and yet high enough to encourage further development by producers? Mar-

shall C. Howard. Nov '57, pp. 34-37.

THE QUASI COMPANIES; new situations create a new type of company that takes its station midway between public and private enterprise. Earl J. Weinreb. Feb '58, pp. 13-16.

Health and social welfare

IS THE SOCIAL SECURITY FUND SOLVENT?; social security financing is based on sound actuarial principles. Edwin E. Witte. Aug-Sep '58, pp. 25-29.

MEASURING ECONOMIC WELFARE; a standard of living is more than an economic statistic. Bert F. Hoselitz. Nov '57, pp. 8-12.

TRANSFORMATION IN MEDICAL BILLS; 70 per cent of the American population has some form of protection against some of the costs of ill health. Herbert A. Klarman. Oct '57, pp. 13-16.

WHO ARE THE AMERICAN POOR?; the "poor" are still with us, despite long years of prosperity. David A. Shannon. Jan '58, pp. 72-76.

WIDOWS IN THE AMERICAN ECONOMY; the disparity in the life span between males and females has made widowhood a major problem in human and economic terms. Clara Eliot. Mar '58, pp. 72-76.

Industries

CASH AND CULTURE IN BOOKS; publishers seek the golden mean in the book business. Fon W. Boardman, Jr. Jan '58, pp. 63-66.

LILLIPUTIAN INVASION; foreign automobiles gain sales here because they ignore "standard" American taste in car design. James U. Steinfirst. Oct '57, pp. 59-62.

MAIL-ORDER ELECTRONICS; Olson Radio Warehouse has grown to be the second largest firm in a field where the rate of business casualties is high. Michael Roberts. Oct '57, pp. 30-33.

ONE-QUARTER PER CENT AND HOUSING; there is an intricate relationship between the availability of mortgage credit and the construction industry. David M. Blank. Nov '57, pp. 42-46.

THE RAILROAD ROLLBACK; the troubles of the nation's biggest transportation business have reached the critical stage—with few remedies in sight. James G. Lyne. Mar '58, pp. 23-26.

Investment

AMERICA'S GIANT INVESTORS; institutional control over pooled savings is increasingly shaping the distribution of investment funds. Rudolph L. Weissman. Oct '57, pp. 8-12.

CAPITAL GOODS RECESSION?; business investment acts as a brake against a downward swing that has been caused by other economic factors. Dexter M. Keezer and Margaret K. Matulis. Aug-Sep '58, pp. 49-53.

DOES EXCESS CAPACITY MEAN RECESSION?; economic progress and industrial research have given new meaning to a word that once connoted a deflationary slump. Robert P. Ulin. Mar '58, pp. 49-53.

HOW GOOD ARE MUTUAL FUNDS?; while the most convenient form of investment for the man of modest means, mutual funds do not offer better than average performance. Rudolph L. Weissman. Jun-Jul '58, pp. 53-57.

INDUSTRIAL RESEARCH PAYS ITS WAY; research requires bigger investments, but it produces bigger profits. Robert P. Ulin. Jan '58, pp. 42-46.

INSURING OUR FOREIGN INVESTMENTS; a little-known program protects American investments outside the U. S. against such risks as war and expropriation. Emile Benoit. Jan '58, pp. 58-62.

MAKING A MILLION ON WALL STREET; today's speculators learn to play successfully according to new rules. Ben Weberman. Nov '57, pp. 13-16.

MOBILIZING THE MONEY; recent increases in productive capacity have kept investment needs for defense down to moderate size. Samuel S. Shipman. Apr '58, pp. 67-71.

PROGRESS WITHOUT RISK; investors in today's growth industries bear only minor risks of innovation. William C. Freund. Oct '57, pp. 25-29.

RAISING CAPITAL FOR SMALL BUSINESS; new efforts to ease the job of finding funds for smaller firms. Rudolph L. Weissman. Jan '58, pp. 8-12.

STOCK OR BONDS?; firms seeking new capital have found advantages and dangers in floating the great bond issues of recent years. Sidney Weintraub. Jun-Jul '58, pp. 67-71.

THE GROWTH COMPANIES; technological advances can help firms grow, but the philosophy of "if you can't lick 'em, join 'em," works even better. Sidney C. Sufrin. May '58, pp. 62-66.

WALL STREET'S JUNK DEALER; a specialist in obsolete securities proves that there is life in stocks that have been given up for dead. Leonard Baker. Feb '58, pp. 32-33.

Manners and mores

CHANGING TIMES—CHANGING WORDS; new developments, assisted by communications and advertising, are causing continual revisions in the language we use. Mario Pei. Jun-Jul '58, pp. 18-22.

CRIME IS BIG BUSINESS; the increase in the crime rate outstrips our population growth and poses an insidious threat to our vital institutions. Donald J. Newman. May '58, pp. 28-32.

RELIGION AND PROSPERITY; our economy of abundance tests a piety that has historically drawn strength from the element of sacrifice. James Gustafson. Aug-Sep '58, pp. 35-39.

Marketing

CHANGING TIMES—CHANGING WORDS; new developments, assisted by communications and advertising, are causing continual revisions in the language we use. Mario Pei. Jun-Jul '58, pp. 18-22.

IS FAIR TRADE FINISHED?; fair trade practices have suffered reverses, but they still have force in important business sectors. Stanley C. Hollander. Jun-Jul '58, pp. 48-52.

THE CORPORATE IMAGE; big businesses try to increase their sales by promoting themselves as an attractive personality among their customers. Wilbur K. McKee. Feb '58, pp. 22-25.

THE TASTEMONGERS; the defenders of good taste must take into account the effects of mass consumption as well as those of mass production. Milton W. Brown. Feb '58, pp. 17-21.

WHAT MAKES THE CONSUMER BUY?; Americans do not make the "rational" choices assumed by classical economics. Victor Lebow. Mar '58, pp. 27-31.

Money and credit

A CLOSER LOOK AT MONEY; what is its nature and how well do we understand it? Donald L. Kemmerer. Feb '58, pp. 8-12.

ASSESSING THE FED; are the Federal reserve banks properly organized to meet the needs of private business and general public policy? Raymond Rodgers. Mar '58, pp. 18-22.

CONSUMER DEBT: WHO OWNS IT?; an amazing variety of credit facilities have emerged to finance the insatiable desire to buy on time. Kurt F. Flexner. Oct '57, pp. 63-66.

MOBILIZING THE MONEY; recent increases in productive capacity have kept investment needs for defense down to moderate size. Samuel S. Shipman. Apr '58, pp. 67-71.

ONE-QUARTER PER CENT AND HOUSING; there is an intricate relationship between the availability of mortgage credit and the construction industry. David M. Blank. Nov '57, pp. 42-46.

Monopoly and competition

ADMINISTERED PRICES—A NEW INFLATIONARY VILLAIN?; Jules Backman. Oct '57, pp. 21-24.

AFTER THE MERGER; corporate weddings can bring about strong new firms—or painful divorces. Mitchell Gordon. Jun-Jul '58, pp. 28-26.

ARE LABOR UNIONS MONOPOLIES?; a prominent economist says, "Yes, but. . ." Charles E. Lindblom. Feb '58, pp. 26-31.

CHANGING CONCEPTS OF MONOPOLY; recent Court decisions have broadened the class of antitrust offenders. Robert A. Solo. Oct '57, pp. 71-75.

DEMOCRACY AND ORGANIZATION; does the democratic ideal of individualism need defense against the mass discipline of a giant organization? Kenneth E. Boulding. Mar '58, pp. 13-17.

IS BIG BUSINESS TOO BIG?; the giants in the American economy are growing, but there is still room in the skyscraper club for late arrivals. Irwin M. Stelzer. Mar '58, pp. 62-66.

LABOR GOES INTO BUSINESS; unions compete with capitalists in the world of profit and loss. Al Toffler. Jan '58, pp. 47-51.

THE POWER OF PRICE-MAKERS; do administered prices mean administered inflation? Jules Backman. Dec '57, pp. 23-26.

Politics

DEMOCRACY AND ORGANIZATION; does the democratic ideal of individualism need defense against the mass discipline of a giant organization? Kenneth E. Boulding. Mar '58, pp. 13-17.

EQUALITY FOR WHAT?; the democratic process requires a continual testing of the principle of equality against other cherished goals. Charles E. Lindblom. Jun-Jul '58, pp. 35-39.

FREEDOM IN "FORTRESS" AMERICA; the citizen can maintain liberty in the face of increasing centralization if he uses the avenues of responsibility open to him. James D. Calderwood. Apr '58, pp. 45-49.

PARADISE LOST; Milovan Djilas, in "The New Class," laments for a world that never was. Haig Babian. Nov '57, pp. 47-51.

THE SOCIALIST'S DILEMMA; Europe's Socialist parties find their traditional platforms irrelevant to contemporary problems. Sigmund Neumann. Nov '57, pp. 29-33.

Regions, U. S.

CALIFORNIA: PIONEER'S PARADISE?; America's future is sketched out in a state where innovation is a way of life. Bruce Bliven. May '58, pp. 14-18.

NORTH AMERICA'S NEW COASTLINE; the St. Lawrence Seaway opens a new route into the heart of the nation. David Felix. Nov '57, pp. 60-63.

TEXAS WITHOUT OIL; a balanced economy is more important than a bonanza. Thomas Martin. Aug-Sep '58, pp. 62-66.

Science and technology

A TECHNOLOGICAL ASSET; how will the growing emphasis on defense affect technological innovation? Challenge Editors. Apr '58, pp. 58-62.

INDUSTRIAL RESEARCH PAYS ITS WAY; research requires bigger investments, but it produces bigger profits. Robert P. Ulin. Jan '58, pp. 42-46.

MINERALS, DEFENSE AND GROWTH; our mineral supply can meet defense needs without hampering growth. Samuel G. Lasky. Aug-Sep '58, pp. 44-48.

PROGRESS WITHOUT RISK; investors in today's growth industries bear only minor risks of innovation. William C. Freund. Oct '57, pp. 25-29.

THE GROWTH COMPANIES; technological advances can help firms grow, but the philosophy of "if you can't lick 'em, join 'em," works even better. Sidney C. Sufrin. May '58, pp. 62-66.

Service industries

OCCUPATIONAL REVOLUTION?; the shift in employment from production industries to service industries describes a long-standing trend, not a revolution. Charles D. Stewart. Oct '57, pp. 67-70.

SPEED UP IN SERVICE; with increased mechanization, service industries should begin to catch up with productivity trends in other sectors of the economy. John W. Kendrick. Jan '58, pp. 29-33.

THE RAILROAD ROLLBACK; the troubles of the nation's biggest transportation business have reached the critical stage—with few remedies in sight. James G. Lyne. Mar '58, pp. 23-26.

WHAT IS A SERVICE?; economists tell us that there has been an increase in the service area of the economy, but they cannot agree on what "services" are. Edward C. Budd. May '58, pp. 48-52.

Soviet Union

HOW THE SOVIETS "PLAN" THEIR PRICES; the Russian price system defies the usual market factors and penalizes the one sector that cannot talk back—the consumer. Gregory Grossman. Jan '58, pp. 22-26.

REBEL IN RUSSIA; economists in the Soviet Union have as much trouble explaining inflation as dealing with it in their planned economy. Alexander Gerschenkron. Dec '57, pp. 58-62.

RUSSIA TIGHTENS HER LINKS WITH CHINA; Soviet experts and capital force-feed China with industrial modernization. Arthur S. Barron. Nov '57, pp. 22-26.

RUSSIA TURNS TO ECONOMIC COMPETITION; Soviet trade and aid programs give new dimensions to the cold war. Abram Bergson. Feb '58, pp. 50-54.

SCHOOLING THE SOVIET SCIENTIST; the Russian education system produces a militant army of well-trained scientists and technicians for the cold-war strategy. Burton Rubin. Jan '58, pp. 13-16.

THE SOVIET LIVING STANDARD; can we measure how well or badly the average Russian lives in the country of communized industry, agriculture and technology? Harry Schwartz. May '58, pp. 72-76.

Underdeveloped areas

MEXICO: PROGRESS AND DISPROPORTION; Mexico serves as a testing ground for United States relations with the other underdeveloped nations throughout the world. Frank Tannenbaum. Feb '58, pp. 38-41.

RUSSIA TURNS TO ECONOMIC COMPETITION; Soviet trade and aid programs give new dimensions to the cold war. Abram Bergson. Feb '58, pp. 50-54.

STABILIZING COMMODITY PRICES; violent fluctuations in the prices of internationally traded commodities cause great problems, particularly for underdeveloped nations. Ben T. Moore. Jun-Jul '58, pp. 27-32.

THE DYNAMICS OF THE TRADE GAP; dollar shortages represent growth pangs of a world in swift economic change. Edwin P. Reubens. Feb. '58, pp. 57-61.

THE LIMITATIONS OF REGIONAL PLANNING; regional blocs have great potential—and problems to match. Edwin P. Reubens. Aug-Sep '58, pp. 30-34.

THE UNDERDEVELOPED AREAS; where a little can go a very long way. August Hecksher. Apr '58, pp. 40-44.

Unions and collective bargaining

ARE LABOR UNIONS MONOPOLIES?; a prominent economist says, "Yes, but . . ." Charles E. Lindblom. Feb '58, pp. 26-31.

ARE UNIONS GOING INTO MANAGEMENT?; developments here and abroad show that unions are gradually moving into a position where they can influence management decisions. Adolf Sturmthal. May '58, pp. 35-39.

BACK TO THE RANK AND FILE?; although there is room for more democracy, basic policy decisions must continue to be the responsibility of union leadership. A. H. Raskin. Aug-Sep '58, pp. 8-12.

LABOR GOES INTO BUSINESS; unions compete with capitalists in the world of profit and loss. Al Toffler. Jan '58, pp. 47-51.

LABOR, PRODUCTIVITY AND PRICES; a labor economist says that prices have outrun labor costs and thus have caused the inflationary pressure of today. Solomon Barkin. Dec '57, pp. 27-31.

STRIKING A COLLECTIVE BARGAIN; union-employer bargaining involves a complex strategy covering a wide area from economic principles to the unpredictable human factor. Louis Yagoda. May '58, pp. 23-27.

"TOGETHERNESS" IN A NEW CONTEXT; the objective of defense plus a high standard of living requires voluntary cooperation by big business and big labor. Arthur R. Burns. Apr '58, pp. 31-35.

WHAT MAKES WAGE DIFFERENCES?; geography and social institutions, as well as demand and supply are involved. Mark Leiserson. Mar '58, pp. 36-39.

Interviews

BEVERIDGE, WILLIAM H.; Member, House of Lords; author of the Beveridge Plan, on individual welfare and the welfare state. Mar '58, pp. 54-59.

BILKEY, WARREN J.; leading consumer consultant for government and industry, on the problems of complex living. Jun-Jul '58, pp. 40-45.

BLOOMGARDEN, KERMIT; leading producer of the American theater, on Broadway's new brilliance. Nov '57, pp. 52-57.

BLOUGH, ROGER M.; Chairman of the Board, United States Steel Corporation, on business' role in fighting recessions. Aug-Sep '58, pp. 54-59.

BRUNDAGE, PERCIVAL F.; Director, Bureau of the Budget, on the budget and defense. Apr '58, pp. 50-55.

ERHARD, LUDWIG; Vice Chancellor and Minister for Economic Affairs of the German Federal Republic, on the free market economy. May '58, pp. 40-45.

HAUGE, GABRIEL; Special Assistant to the President for Economic Affairs, on the Administration and inflation. Dec '57, pp. 45-51.

KNAPP, J. BURKE; Vice President, International Bank for Reconstruction and Development, on the role of the World Bank. Jan '58, pp. 34-39.

MBETA, G. L.; Ambassador from India to the U. S. A., on India: Freedom and Five-Year Plans. Oct '57, pp. 45-51.

SUITS, GUY; Vice President and Director of Research, General Electric Company, on research and economic results. Feb '58, pp. 42-47.

Personality-of-the-Month

EZRA TAFT BENSON—Honesty Is Not Popularity. Mar '58, pp. 47-48.

GE'S CORDINER—Rebel With Cause. Jan '58, pp. 27-28.

EISENHOWER AS ECONOMIST; the President makes the big economic decisions for our country. Oct '57, pp. 43-44.

THE LIBERAL LUDWIG ERHARD; Germany's apostle of a free-enterprise system fights to keep it free. Nov '57, pp. 27-28.

JOHN KENNETH GALBRAITH—Countervailing Economist. Feb '58, pp. 55-56.

GORDON GRAY—Mobilization's Office Manager. Apr '58, pp. 29-30.

WILLIAM MCCHESENEY MARTIN—the Banker's Banker. May '58, pp. 33-34.

CHARLES REYSON—Conspicuous Producer. Jun-Jul '58, pp. 33-34.

LEON H. KEYSERLING—Economic-Adviser-at-Large. Aug-Sep '58, pp. 23-24.

SUMNER S. SLICHTER—Inflation's Reluctant Defender. Dec '57, pp. 37-38.

The Permanent Frontier

NO. 1: American history has its origins in Europe's Renaissance. Oct '57, pp. 38-42.

NO. 2: colonial origins: predominantly English ways are adapted to American means. Nov '57, pp. 64-68.

NO. 3: diversity and unity characterize life in early colonial America. Dec '57, pp. 68-72.

NO. 4: the Revolutionary era: independence demands reconciliation of "liberty" and order, localism and centralization. Jan '58, pp. 67-71.

NO. 5: federal government emerges; centralization provokes party ideologies and defines politico-economic goals. Feb '58, pp. 67-71.

NO. 6: economic expansion forces the Jeffersonians to modify their philosophy to meet changing needs. Mar '58, pp. 67-71.

NO. 7: America was still an infant nation in 1815, but the West, growing industrialization and immigration presaged growth and prosperity. May '58, pp. 67-71.

NO. 8: Jacksonian democracy and the expanding character of economic opportunity in the United States. Jun-Jul '58, pp. 72-76.

NO. 9: the spirit of the American West was inspired by national land policy and the initiative of the small, but independent, land owner. Aug-Sep '58, pp. 67-71.